



Office of the City Auditor

Controls Over Assigning Take Home Status to City Vehicles Report No. 0161E

December 6, 2002

The City can significantly improve how it approaches the assignment of vehicles for take home use. Establishing clear policy; formally fixing authority; developing criteria, definitions, and reporting requirements should result in a more efficient process that helps ensure appropriate take home assignments and proper oversight. These steps should also better ensure that employee compensation, resulting from the take home use of city vehicles, is properly identified and reported. The City Manager has already appointed a committee charged with the responsibility to review current use and create a new citywide Administrative Regulation to guide future use.

CITY COUNCIL

Mayor
Mary Manross

Council
Wayne Ecton
Robert Littlefield
Cynthia Lukas
Ned O'Hearn
David Ortega
Tom Silverman



**Office of the
City Auditor**

7440 East First Avenue
Scottsdale, AZ 85251

PHONE 480-312-7756
FAX 480-312-2634
WEB www.scottsdaleAZ.gov

December 6, 2002

To the Most Honorable Mary Manross, Mayor
and Members of the Scottsdale City Council

This report serves to transmit issues identified during the completion of an audit on the controls over the acquisition and use of light duty passenger vehicles and trucks. The scope of this report is limited to addressing issues related to the assignment of City vehicles for take home by employees.

While completing this work, however, three issues came to our attention that we believe need to be addressed. These issues, presented below, fall outside the scope of this audit but will be addressed in a future audit report that will deal with the acquisition and disposal of City light duty and passenger vehicles.

Significant Upgrades and Modifications Need to Be Approved; Change in Service Delivery Needs to Be Justified in a Manner Similar to a New Vehicle

When a new vehicle is needed, the user department must provide the funds for the initial capital outlay. The customary practice would be for a user department to submit a decision package, with a projected life cycle cost to show the impact of the decision on future operating budgets, as part of a budget approval. Through this process, City Council (Council) is provided insight into the current impact as well as the funding that will be required in future years.

After a vehicle is approved and added to the fleet, the user department is charged a monthly rental rate to cover the cost of maintenance and operation. In most cases, this charge also incorporates an amount designed to reserve funds for future replacement. Through this practice, the user department does not need to return to Council for approval when it is necessary to replace a vehicle that has reached the end of its useful life. In one sense, this is a good business practice because it establishes a "savings account" that helps ensure that the City will have funds available for the replacement vehicle. This mitigates any risk

of an economic downturn and provides some assurance that the fleet will not become obsolete.

However, the current practice also avoids justification of the on-going need for the vehicle. Except in limited situations, once a vehicle is added to the fleet, ongoing replacement is an accepted fact. While the Council annually approves a lump sum capital outlay for scheduled vehicle replacements, there is no requirement for the request to be accompanied by a list of the vehicles and the justification for ongoing need.

Because there is no requirement to justify the ongoing need prior to replacement, a user department can negotiate modifications, upgrades, or significant changes in vehicle type. Once the upgrade has been purchased, future operating budgets are automatically increased to ensure sufficient funds for replacement as well as ongoing maintenance and operations. When the changes or upgrades add to the vehicle cost, the net result is uncontrolled expense creep.

During this work segment, we found three instances in which vehicles were upgraded, based on department request.

Sedan Upgraded to 4x4 Sport Utility Vehicle

In 1997, the City purchased a Tahoe for the previous Police Chief. According to the replacement schedule, the vehicle had an expected useful life of seven years. In February 1998, this vehicle was transitioned to the current Police Chief. However, in September 2000, the Police Department initiated action to purchase a new Tahoe for the Police Chief. The 1997 Tahoe was not sold. Instead, it was "handed down" to another member of the Police Administrative Team and assigned as a take home vehicle. To acquire the new Tahoe without increasing the size of the fleet, the purchase was justified as a replacement for a sedan that was scheduled for retirement.

Purchasing the Tahoe required a significant outlay over what would have been necessary to simply replace the sedan. As well, the annual replacement and operating expense for a sport utility vehicle (SUV) is more than a sedan. As such, while the size of the fleet did not change, the annual cost of operating the Police Department did.

We looked at Purchasing's file for this vehicle and found that it was not purchased through existing vehicle contracts. Instead, it was bid separately with specifications so detailed (down to the exterior color and interior materials) that one model, a fully loaded LT packaged Tahoe was specifically called out. Although the Purchasing Director said that alternatives would have been considered if proposed by a bidder, only one dealer responded to the solicitation with, coincidentally, a vehicle that was identical to what was specified. Based on

dealer invoice information, the LT package increased the cost of the vehicle by almost \$8,000. See Appendix A for the details of what was specified when the vehicle was placed for bid.

According to the Procurement Code, specifications are developed to obtain overall economy for the purposes intended and encourage competition. We made inquiries to Fleet Management and Purchasing regarding documentation to support or justify the specifications. Both Directors stated that they questioned the need but were instructed to acquire the vehicle as outlined as it was part of a contractual agreement between the Police Chief and the former City Manager. We found, while undertaking this audit, nothing in writing to outline the contractual arrangement.

Compact Sport Utility Vehicles Upgraded to Full-Size

In 2000, the Executive Assistant Police Chief and the Emergency Services Officer were provided a full-size Dodge Durango and a Ford Expedition XLT, respectively. These vehicles were an upgrade over the 4x4 S10 Blazer they each replaced.

Similar to the Tahoe discussed above, the annual cost of operating a compact SUV is lower than what is associated with a full-size SUV. As a result, not only did the City incur the additional capital outlay, future budgets will automatically reflect the higher operating costs necessary to provide fuel for the less economical vehicles as well as an increase in the future replacement cost.

We reviewed the files maintained by Fleet Management and found no documentation to evidence any review of specifications, written justification, or any other effort to determine the type of vehicle actually warranted based on job duties.

Additions to Fleet Need to Be Restricted to What Council Approved; Use Needs to Match Justification or Approval for Modification Should Be Obtained

Mid-cycle in the budget for fiscal years '99/'00 and '00/'01, the Police Department submitted a request for funding for a "Knock and Talk" detective unit. This narcotics squad was to "ensure narcotic complaints within the City are pursued in a timely and aggressive manner." According to the request, the squad would consist of six detectives and a supervisor (a total of seven). At the time of this audit, this squad is operational but is only half the size originally proposed.

The budget request included vehicles with Racketeering Influenced Corrupt Organization (RICO) seized funds identified as the funding source. According to the documentation, two vehicles were to be purchased (\$66,000) and seven

were to be leased. There was no mention in the supporting documentation as to why seven new positions would generate a need for nine additional vehicles.

Once funding was approved, the Police Department apparently abandoned the plans outlined in the budget request. Instead, a request was made to Fleet Management to purchase three vehicles. This was accomplished at a cost of \$68,722 (\$2,722 more than what was approved). According to Fleet Management, the difference was absorbed by the Fleet budget.

Once received, instead of assigning them to the proposed narcotics squad, the new vehicles were used to replace leased vehicles assigned to administrative staff. According to the Police Chief, this was done because Financial Services had previously indicated that leased vehicles should be phased out and Police personnel thought it was more appropriate to shift leased vehicles to the proposed narcotics squad. One of the newly purchased vehicles was assigned to the Administrative Services Bureau Director, one was assigned to the Professional Standards Division, and the remaining vehicle was assigned to the Uniformed Services Bureau.

Moreover, we found that RICO funds were not requested as outlined during the budget proposal. As a result, the City's general fund absorbed the cost of the vehicles. If RICO funds had been requested, re-directing the vehicles to a different service delivery would have required the return of the monies. RICO funds cannot be used to supplant funds previously provided for operation of the Police Department. Because the City was already funding the leased vehicles, using RICO funds to replace the vehicles would have been considered supplanting prior funding. However, since RICO funds were not obtained to reimburse the City for the vehicles purchased, there are no issues related to the supplanting of funds.

Funds for Approved Capital Projects Should Be Limited to Their Intended Use Unless Council Approves Otherwise

During our audit, we reviewed capital improvement project fund expenditures related to the acquisition of vehicles for the Patrol Officer Take Home Vehicle Program (POTHVP). Council authorized the use of capital improvement funds to purchase additional vehicles necessary to implement the program.

We found that the Police Department used \$33,000 to purchase a Chevrolet Tahoe that was not assigned to the POTHVP. Instead, it was provided to a Patrol Commander that was not participating in the program. To ensure that a vehicle was assigned to the program, an existing Crown Victoria was then rotated into it. Through this action, capital funds approved for one purpose were

re-directed into a different service delivery. We found no indication that Council approved this action.

Similar to the previous examples, this action also increased the Police Department operating budget because the Tahoe costs more to operate than the Crown Victoria that was already in the Fleet.

As previously mentioned, because the issues discussed to this point fall outside the scope of this specific report, they will be carried forward to the Acquisition and Disposal audit report that we will issue in the future.

If you need additional information or have any questions, please contact me at 480-312-7756.

Respectfully submitted,

A handwritten signature in cursive script that reads "Cheryl Lee Barcala".

Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA, CISSP
City Auditor

Table of Contents

EXECUTIVE SUMMARY.....	1
Results in Brief	2
Action Plan	9
BACKGROUND	16
Historical Trend Analysis	16
"Take Home" Programs Approved by Council	17
City Policies and Procedures Governing Use of City Vehicles	18
Laws and Regulations That Impact the City and Employees When a City- Provided Vehicle is Taken Home.....	19
INTRODUCTION.....	21
CHAPTER 1 CITY NEEDS TO IMPLEMENT ADEQUATE CONTROLS TO MANAGE THE ASSIGNMENT OF VEHICLES AS "TAKE HOME".....	22
City Needs to Monitor the Number of Vehicles Routinely Taken Home by Employees.....	23
Responsibility for Establishing Procedures and Reviewing Justification Needs to Be Set.....	28
Standby and Emergency Status Needs to Be Defined and Implemented Consistently	29
Exempted Vehicles Need to Be Documented and Justified	30
Appropriate Personal Use Needs to Be Defined	30
Decisions Need to Be Documented, Supported by Evidence, and Reasonable Given the Nature of the Work	31
After-Hours Use Should Be Tracked	32
City Needs to Limit the Miles in Which a Vehicle Can Be Driven.....	33
Traffic Enforcement Section.....	33
School Resource Officers and the DARE Program.....	35
Authorization to Take a Vehicle Home Should Be Tied to Obligation to Respond	36
Redundant Assignments Should Be Evaluated	37
Policies Adopted by Departments Need to Be Consistent With City Policy	38
City Needs to Adopt an Administrative Guideline Providing for the Assignment of Vehicles as Part of a Compensation Package or Disallow the Practice.....	38
CHAPTER 2 CITY NEEDS TO COMPLY WITH INTERNAL REVENUE CODE REQUIREMENTS TO REPORT ADDITIONAL COMPENSATION	41
City Needs to Establish a Process Sufficient to Ensure Compliance with Regulations.....	42
City Needs to Require Documentation	43
Exclusions Need to Meet Federal Criteria	46

Police Chief.....	47
Administrative Services Bureau Director.....	48
Emergency Services	49
Executive Assistant Police Chief and Deputy Chief	52
City Needs to Distinguish Between Business Need and Personal Convenience	52
City Needs to Evaluate Use of City-Provided Vehicles Within the Police Department and Verify That Exclusion From Compensation is Appropriate...	53
CHAPTER 3 CITY NEEDS TO RE-EVALUATE PATROL OFFICER TAKE HOME VEHICLE PROGRAM	56
Program Objectives and Performance Measures Would Provide a Means of Evaluating the Benefit of Providing an Assigned Vehicle	58
Better Management Reports Would Provide Additional Insight	60
Vehicle Use Results in Additional Compensation	61
OBJECTIVE, SCOPE, AND METHODOLOGY	63
Survey Tests.....	66
Fieldwork Tests	69
APPENDIX A: BID SPECIFICATIONS FOR THE 2000 CHEVROLET TAHOE ASSIGNED TO THE POLICE CHIEF.....	83
APPENDIX B.....	84
APPENDIX C: MANAGEMENT RESPONSE.....	86

EXECUTIVE SUMMARY

In September 2001, the City Auditor's Office initiated an audit of the controls over the acquisition and use of light duty passenger vehicles and trucks. This report, the third in a series of reports that have resulted from our work, addresses issues related to the assignment of City vehicles for take home use.

Government auditing standards define a performance audit as an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a program, activity, or function. These audits are undertaken to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

When completing this audit we:

- Considered the economy and efficiency in which City resources were used.
- Attempted to determine the extent in which desired results are being achieved and evaluate the effectiveness of program delivery.
- Determined the level of compliance with laws and regulations.

The information that will be presented in the report has the potential to create an initial reaction that the focus of the audit was the Police Department. This is not the case, but simply the result of the facts. At the time of our related fieldwork, the Police Department had 163 vehicles, including 9 motorcycles, assigned as take home. On a citywide basis, outside of the Police Department, only two other vehicles were reported with a similar use. While reading this report it is important to keep in mind that the City, for many years, has operated in a decentralized fashion with the expectation that departments take ownership for the control environment. City values encouraged employees to "Risk, Create, and Innovate" and "Be a Team Player." In addition, the City lacked centralized comprehensive policies and procedures that addressed vehicle use. Police management has expressed their view to us that they have operated under the City's existing framework for assigning vehicles for take home use.

During our audit, Financial Services staff repeatedly stated that they sought information regarding take home vehicles. However, documentation was not available to evidence whom these inquiries were directed to and when they were made. According to the manager responsible for Payroll, no vehicles were reported as a result of the inquiries. As such, according to her, they were under the impression that the vehicle assigned to the Police Chief was the only one being taken home. It is evident that Payroll attempted to comply when provided

information and, perhaps, the control environment would have been different if Financial Services knew the volume of vehicles assigned.

Finally, tax laws can be complicated even for someone educated and trained in the subject matter. For most City employees, the nature of their job would not require them to have a firm understanding of the nuances associated with the requirement for tracking and reporting additional compensation when a city-provided vehicle is used for personal purposes. In fact, it would seem reasonable to assume that most employees would not know that the Internal Revenue Service (IRS) considers using a city-provided vehicle to commute to and from work, even when required by the City, to be a fringe benefit that requires the City to report additional compensation. As such, Department Managers, Directors, and Supervisors given the authority to make decisions regarding use, may not have had sufficient training to allow them to make informed decisions and identify situations that warranted a follow-up with Financial Services.

The complicated nature of the taxable status of fringe benefits is the most compelling reason for the City to provide written guidance, training, and other educational materials to employees who may be placed in a situation of having to deal with the issue.

Ramon Ramirez, Auditor-In-Charge, Stella Fusaro, and Eric Spivak completed the project. Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing as required by Article III, Scottsdale Revised Code, §2-117 *et seq*, with the exception of the peer review requirement.

Results in Brief

Regarding the assignment of vehicles for take home, the Police Chief stated that his department has worked within the City framework in place up to this time. He further stated that, while the number of vehicles assigned for take home in his department may have increased since he became Police Chief, the additions are the continuation of previously approved vehicle assignments for certain positions.

We believe that City management needs to change, significantly, how it approaches the assignment of take home vehicles. Under the decentralized structure currently in place, there is no effective oversight of decisions made at the department or division-level. As such, there is limited assurance that assignments are appropriate, serve to address a true service delivery need, or result in an efficient use of City resources. The following are examples of what we found that led us to this conclusion.

1. Multiple instances in which 4x4 sport utility vehicles (SUV) were provided simply to serve as transportation. There was no documented justification to support the business need for that particular type of vehicle. As a result of decisions such as this, the City not only pays more initially to acquire the vehicle but also incurs a greater annual expense due to the lower fuel economy and the increased cost associated with maintaining an SUV. In one situation, a city-provided SUV is driven approximately 50 miles daily just in personal commute mileage.
2. Redundant assignments for the same service delivery without any historical trend analysis to support the need. Moreover, in many instances, vehicles are taken a significant distance outside City limits without any performance expectation setting out what would be considered an appropriate response time.
3. Assignments justified by claims of increased productivity or the need for a certain level of service (e.g., the officer is required to be on campus ½ hour before school starts and ½ hour after release). However, there was no analysis to support the projected savings nor were there any management reports that could be used to gauge whether or not the stated level of service had a significant impact on program delivery. We looked at one Council Action Report, a request for a new School Resource Officer (SRO) submitted as part of the biannual '99/'01 budget, and found that there was no mention of level of service (i.e., hours on campus, number of days, or assignment of officer when school was not in session). Without performance objectives for programs such as this, we could not reach a conclusion that it was imperative for the officer to be able to report directly to the campus in a police vehicle. To accomplish this stated level of service, in two instances, the City incurs the cost for an average daily commute of approximately 50 miles. Moreover, there is no indication that the take home status stops once school is in recess and the officers are reassigned.
4. Assignments of fully marked Patrol Cruisers as transportation for SROs. These vehicles sit either at a school campus or the officer's personal residence (only three of which are located in Scottsdale) close to ten months out of the year. During school recess, officers are reassigned to the Investigative Bureau and, apparently, do not carry out patrol functions. If increased visibility is the desired outcome of this practice, the same result could be achieved more efficiently by simply marking an Intrepid or other similar model with the standard police pattern. This would achieve the same result (i.e., increased visibility) while eliminating the investment necessary to purchase and equip a patrol car. Given the potential concern regarding the safety of Crown Victorias, it would be appropriate to consider if the service is such that it is imperative to assign what is customarily considered a pursuit vehicle.

5. Council Action Reports, requesting funding for a new vehicle, do not indicate why the vehicle is a necessary component of service delivery nor do they consistently indicate if it would be deployed marked or unmarked. As a result, we could not determine if the actual assignment matched the justification submitted at the initial funding request. We looked at three vehicles requested (the SRO discussed previously and two Emergency Services positions submitted mid-cycle for the biannual '99/'01 budget). There was no discussion in any of the three requests that would have served as notice to the Council that the vehicles would be assigned as take home. In fact, there was no justification at all to support the need for the vehicles.
6. No requirement for management to implement usage reports or other tracking reports when a vehicle is deployed and assigned for take home. As such, there is no means to continuously monitor the need for the assignment. Moreover, there is no historical information that can be used to judge whether or not it is cost-beneficial for the City to provide a fulltime, assigned vehicle compared to the cost of reimbursing any required business use or providing a limited amount as a car allowance.
7. No requirement for Risk Management to review any of the multitude of take home assignments to consider risk to the City arising from the use of a City vehicle for personal use. For example, approximately 80 percent of the mileage placed on one vehicle assigned to an administrative position in the Police Department was driven, according to information provided by the employee, for personal use. Each mile placed the City at risk, a liability that should more appropriately rest with the employee. However, there was no evidence to indicate that Risk Management reviewed and concurred with the assignment.
8. Assignment of unmarked vehicles as take home without any justification of the need for the vehicle to be unmarked. For example:
 - Ten unmarked vehicles assigned to administrative personnel such as the Police Chief, Internal Affairs, Community Affairs (i.e., the Public Information Officers [PIO]), as well as the Executive Assistant Chief, Deputy Chiefs, District Captains, and the Administrative Services Bureau Director.
 - Seven unmarked vehicles assigned to the Traffic Enforcement personnel responsible for investigating motor vehicle accidents.
 - Three vehicles assigned to the Emergency Services staff for response to emergency situations.
9. Police Department administrative personnel authorized to use a city-provided vehicle for personal purposes thereby eliminating the need for them to provide for their own transportation needs. To accomplish this,

the City must provide the funds to acquire a vehicle, register it, maintain it, and, eventually, replace it.

- The City assumes the risk for any liability arising from damage to the vehicle, property, or persons while the vehicle is operated for personal purposes. A reasonable person would believe that this is an obligation that rests with the employee, not the citizens of Scottsdale.
- In one case, operating funds were used to lease a vehicle that, according to 2001 usage records, was used primarily for personal purposes.
- In addition to costs associated with acquiring, maintaining, and insuring, the City absorbs the cost of fuel for personal consumption.

Assignment of vehicles for take home is not just an issue of how well funds are spent and the potential risk to the City arising from the additional mileage. Decisions made at the department level also impact the management of the Fleet Division. When a vehicle is converted to take home use, the amount of down time available for routine maintenance becomes almost non-existent. Because the vehicle serves as the employee's transportation to and from work, routine maintenance cannot be scheduled after work hours. As a result, Fleet Management must work around an employee's schedule or a loaner vehicle must be provided. Moreover, vehicles that are taken home generally have more miles placed on them than a vehicle that was parked during off duty hours. The commute miles increase the need for routine maintenance such as oil changes and tire rotations thereby increasing the volume of work that must be fit into a limited number of available mechanic hours. Finally, assigning vehicles to individuals instead of a work unit has the potential to increase the size of the fleet over what is necessary for actual service delivery. As a result, more mechanics may be needed to maintain the City's fleet.

With the implementation of an adequate control structure, we believe the City could achieve material reductions in fleet related expenditures. This can be accomplished without a degradation in the level of service simply by:

- Ceasing the practice of assigning a vehicle to a specific individual and implementing a motor pool that could be assigned for take home when warranted.
- Eliminating redundant assignments of take home vehicles by determining actual service need.
- Implementing a more economical approach when acquiring vehicles that serve only to provide daily transportation to various sites.

- Paying mileage reimbursement or a car allowance instead of providing a vehicle when the service need or use does not justify an assigned vehicle.
- Controlling the commuting mileage by establishing boundaries such as city limits, miles driven, or response time.
- Establishing a citywide policy that prohibits providing a City vehicle as a means of increasing the compensation package offered to an individual.

These changes would provide the Council with an opportunity to reprogram savings to other higher priorities or approve the reassignment of vehicles for other uses in the City.

Our audit work also identified the need to implement a process that would ensure compliance with Internal Revenue Code (IRC) provisions. IRC requires, except in limited situations, personal use of city-provided vehicles to be treated as additional compensation. Although Financial Services has attempted to comply in situations that had been brought to the attention of the Payroll Division, we found:

- Multiple instances in which compensation should have been reported but was not. According to the manager in charge of Payroll, staff was not kept informed of assignments. There was, apparently, even a breakdown within Financial Services as Payroll stated they were unaware that Risk Management had been assigned a take home vehicle.
- Broad interpretations of what is considered to be "incident to law enforcement functions," thereby artificially lowering the amount of compensation that should be reported. For top staff in the Police Department, the practice has been to consider all use, whether business or personal, to be "incident to law enforcement functions." According to Police staff, all use qualifies because staff is "on-call" 24 hours a day, 7 days a week. We found no evidence that the activities of these individuals are restricted 24 hours a day, 7 days a week, to ensure that there is a reasonable chance that the employee would actually be able to respond. There is no limit such as geographic area and no restrictions on use of the vehicle to transport friends or family members. Moreover, the practice has the appearance of being consciously structured to benefit these highly compensated individuals because personal use of a City vehicle, regardless of on-call status is prohibited below the Deputy Chief level.¹ According to the Police

¹ This discussion does not include employees assigned to the Special Investigations Section.

Chief, personal use of vehicles is appropriate for top-level staff because they are required to monitor their police radios and respond to incidents and situations requiring their presence.

- Lenient interpretations of "non-personal" use vehicles, by the Police Department, in an effort to justify providing the vehicle without needing to treat the use as additional compensation. The apparent approach within the Police Department was to treat all vehicles as "qualified non-personal use vehicles" exempt from any reporting requirements without consideration of actual service delivery. IRC requires exemption to be based on actual business need, not just the classification of assignment.

The past practice has resulted in providing "tax free" benefits to certain employees when, in fact, the City had a legal obligation to compute the compensation and pay appropriate payroll taxes. More to the point, for those employees who have free use of City vehicles for personal purposes, the practice results in a gift of public funds equal to the imputed value equal to the cost avoidance that results from not having to provide, operate, and maintain a vehicle as well as purchase insurance coverage.

During our audit, we questioned the City's obligation to report compensation for several employees. In one situation, management elected to report compensation for the calendar year 2001. However, the City not only reported compensation, but actually paid the employee's projected federal and state income taxes as well as the other employment-related taxes. As a result, the employee received approximately \$2,488 in additional compensation. IRS rules require that an employer withhold the applicable social security and Medicare taxes on the value of an employee's personal use of a vehicle provided by the employer. In addition, if the employer chooses not to withhold the related income tax from the employee's wages, they must notify the employee in writing within a specified time period. The City did not meet these requirements for this employee. The manager over Payroll said that in consultation with the Human Resources Director, Financial Services decided that in fairness to this employee, the City would pay the above-mentioned taxes.

Finally, we found that the Police Department has not established program objectives (other than those contained in the initial proposal) for the POTHVP, a specific program approved by Council in 1996. As a result, there is no information that can be used to gauge the success of the program.

The program, as currently structured, appears to be more a means to reward performance. For example there is no requirement of the officer to:

- Reside in an area identified as a "high crime" area or one in which the City was attempting to increase the feeling of safety. In point of fact, the City has abandoned the "Housing Program," one of the sister programs brought forward at the same time as a way of increasing officer presence in targeted neighborhoods.
- Be active in community activities. Moreover, there is no requirement for the Police Department to establish programs that the officers can participate in and no performance measures that can be used to evaluate the impact on the community policing effort.
- Submit management reports outlining neighborhood outreach activities.
- Reside in the same District. We found instances in which officers living in the southern portion of the community were assigned to District 3, to patrol the northern most area.

We would not recommend expanding the current program unless relevant program objectives, performance measures, and outcomes can be developed and monitored as a means of evaluating the effectiveness of the program. This position is supported by the fact that there is no similar program in any other municipality in the metropolitan area.

The City of Phoenix did report a program known as Police Officer Placement Solutions (POPS). Although take home vehicles are assigned in this program, it is extremely different than what is currently in place in Scottsdale. To participate in the Phoenix POPS program, the officer must live in a multi-housing complex, participate in outreach, and work/live in the same District. Moreover, the number of vehicles available for assignment is limited based on precinct.

Action Plan

Recommendations	Management Response	Status
<p>I. We recommend that the City Manager:</p> <p>A. Designate a department with the authority and responsibility to establish the policy that will govern City vehicle use.</p> <p>B. Require development of this policy to clearly establish the City's position on use of owned or leased vehicles. At a minimum, the policy should:</p> <p>1. State when it is appropriate to use a City owned or leased vehicle.</p> <p>2. Prohibit:</p> <p>a) Assigning vehicles to specific individuals unless the need is supported by sufficient justification.</p> <p>b) Assigning vehicles take home status without prior authorization.</p> <p>c) Personal use, including commuting, unless the use has been specifically authorized.</p> <p>d) Using vehicles for personal gain even when personal use has been authorized.</p>	<p>Agree: Financial Services is being assigned this authority and responsibility.</p> <p>Agree: Financial Services will use recommendations provided by a committee that was appointed by the City Manager that is chaired by Human Resources General Manager Neal Shearer. The other members of the committee are Municipal Services General Manager Al Dreska, Fleet Director Danny Johnson, Chief Financial Officer Craig Clifford, and Deputy Police Chief Alan Rodbell.</p> <p>Agree</p> <p>Agree: Sufficient will be defined based on recommendations from the aforementioned committee.</p> <p>Agree: The policy will outline who has authority to give such authorization.</p> <p>Agree: Same as above.</p> <p>Before the City Manager can agree or disagree, the implications of this must be better understood; it is assumed that this is in the context of off-duty police officers using patrol cars</p>	<p>Completed</p> <p>Underway: Complete by 02/28/03</p> <p>Underway: Complete by 02/28/03</p> <p>Underway: Complete by 02/28/03</p> <p>Underway: Complete by 02/28/03</p> <p>Underway: Complete by 02/28/03</p> <p>Underway: Complete by 02/28/03</p>

Recommendations	Management Response	Status
	while working at special events, for private business etc. In general, the City Manager does not condone the use of public vehicles for personal gain; the question to resolve is whether there is a justifiable public purpose in these situations.	
e) Using vehicles outside City limits without prior authorization.	Agree: Same as a) and b) above.	Underway: Complete by 02/28/03
f) Adoption of department or division policies contrary to the City policy.	Agree	Underway: Complete by 02/28/03
3. Require preference be given to car allowance or mileage reimbursement, unless the nature of the service or cost effectiveness justifies authorizing City vehicle use.	Agree: The definition of "nature of the business" will need to be determined based on the input and recommendations of the City Manager appointed committee.	Underway: Complete by 02/28/03
C. Require development of sufficient procedures to ensure that the policy is carried out. At a minimum, these procedures should:	Agree	Underway: Complete by 02/28/03
1. Identify the area responsible to oversee compliance with policy.	Agree	Underway: Complete by 02/28/03
2. Require sufficient, documented justification of the need as a condition of authorization for take home classification. This documentation should include:	Agree	Underway: Complete by 02/28/03
a) Historical trends, if any, to support the need.	Agree: As noted, historical trends may not exist, for example if the use is associated with a new program.	Underway: Complete by 02/28/03
b) The specific business purpose for the take home assignment.	Agree	Underway: Complete by 02/28/03

Recommendations	Management Response	Status
c) The type of assignment (i.e., temporary, rotating, or permanent).	Agree	Underway: Complete by 02/28/03
d) Characteristic of service that requires the type of vehicle that will be assigned.	Agree	Underway: Complete by 02/28/03
e) The employee's obligation to respond to a call while not on duty.	Agree: This will be defined; depending on the use, there may not be an obligation to respond while not on duty.	Underway: Complete by 02/28/03
f) Financial impacts associated with the after hours use; including projected standby pay and additional fuel and maintenance costs.	Agree	Underway: Complete by 02/28/03
g) Cost savings associated with the assignment along with methodology used to arrive at the amounts.	Agree: With the notation that cost savings is an important criteria but not the only criteria for determining take home use; the nature of the business must also be considered.	Underway: Complete by 02/28/03
h) Identification of other vehicles that are currently assigned for the same use.	Agree	Underway: Complete by 02/28/03
i) Response time required.	Agree: With the notation that some vehicles may be assigned for take home use and not require a response time because the use may not be related to emergency response.	Underway: Complete by 02/28/03
j) Data supporting that the response time is attainable.	Agree	Underway: Complete by 02/28/03
k) Alternatives considered.	Agree	Underway: Complete by 02/28/03

Recommendations	Management Response	Status
l) Approval by the General Manager, Assistant City Manager or Deputy City Manager.	Agree: In addition, this will include the Police Chief and/or Deputy Police Chief and where appropriate, the City Manager.	Underway: Complete by 02/28/03
3. Include sufficient definitions to clarify terms such as take home and personal use.	Agree	Underway: Complete by 02/28/03
4. Establish a system through which a department or division can request authorization to:	Agree	Underway: Complete by 02/28/03
a) Classify a vehicle as appropriate for take home status.	Agree	Underway: Complete by 02/28/03
b) Take a vehicle outside city limits.	Agree	Underway: Complete by 02/28/03
5. Establish an acceptable distance in which vehicles can be driven when assigned take home status.	Agree: With the ability to provide for exceptions to any distance that is chosen depending on the nature of the business purpose; the reality is that many employees can not afford to live in Scottsdale and there may be limited qualified personnel in a position or positions for which justification for a take home vehicle exists and the additional cost is not "substantial" based on cost benefit.	Underway: Complete by 02/28/03
6. Establish minimum acceptable conditions for overnight parking when a vehicle is assigned take home status.	Agree	Underway: Complete by 02/28/03
7. Require: a) Centralized tracking of vehicles assigned take home status.	Agree	Underway: Complete by 02/28/03

Recommendations	Management Response	Status
b) Logging the use of vehicles assigned take home status unless the vehicle is designated as a "qualified non-personal use vehicle."	Agree	Underway: Complete by 02/28/03
c) Tracking after-hours use of vehicles assigned take home status regardless of classification.	Agree	Underway: Complete by 02/28/03
d) Timely submittal of use reports.	Agree	Underway: Complete by 02/28/03
e) That Risk Management approves assigning a vehicle take home status as a condition of authorization.	Agree	Underway: Complete by 02/28/03
f) That Payroll determine the tax implications of assigning a vehicle take home status as a condition to authorization.	Agree	Underway: Complete by 02/28/03
D. Direct the Financial Services General Manager to initiate actions necessary to establish and document policies and procedures to govern the determination of tax status when a vehicle is assigned take home status or other personal use. At a minimum, the policy should address the City's commitment to report personal use of City vehicles as additional compensation. Procedures should:	Agree	Underway: Complete by 02/28/03
1. Document the information that is required to be submitted when a department or division is requesting authorization to assign a vehicle take home status.	Agree	Underway: Complete by 02/28/03
2. Outline the attributes that will be considered when arriving at a conclusion on tax implications.	Agree	Underway: Complete by 02/28/03
3. Document the process that will be used to capture the data necessary for any calculation.	Agree	Underway: Complete by 02/28/03

Recommendations	Management Response	Status
4. Set out the method that will be used to calculate compensation associated with any personal use.	Agree	Underway: Complete by 02/28/03
5. Require written notice to an employee of the determination as part of the authorization for take home use.	Agree	Underway: Complete by 02/28/03
6. Require timely submittal of use logs, signed by the employee and listing: <ul style="list-style-type: none"> Beginning miles, Business miles, Personal miles, Ending miles. 	Agree	Underway: Complete by 02/28/03
E. Direct the Financial Services General Manager or the Municipal Services General Manager, as appropriate, to review and amend Administrative Guidelines 125, 204, and 265 to ensure that they are consistent with any new City policy that governs City vehicle use.	Agree	Underway: Complete by 02/28/03
F. Direct the Police Chief to reevaluate the "Patrol Officer Take Home Vehicle Program" and provide written justification for continuing the program. This justification should:	Agree	Underway: Complete by 02/28/03
1. Specify program objectives and desired outcomes.	Agree	Underway: Complete by 02/28/03
2. Specify performance measures for gauging program success.	Agree	Underway: Complete by 02/28/03
3. Indicate how the vehicles will be assigned and used.	Agree	Underway: Complete by 02/28/03
4. Present a cost benefit analysis that includes information on how long the vehicles will remain in service.	Agree	Underway: Complete by 02/28/03
5. Indicate whether the vehicles will be rotated to other service deliveries to even out usage.	Agree	Underway: Complete by 02/28/03

Recommendations	Management Response	Status
6. Indicate whether personal use of the vehicles will be permitted and provide a related justification.	Agree	Underway: Complete by 02/28/03
G. Direct the Financial Services General Manager to assess whether participants in the "Patrol Officer Take Home Vehicle Program" will accrue taxable income from their personal use of program vehicles while not on duty and not obligated to respond to call-ins.	Agree	Underway: Complete by 02/28/03

BACKGROUND

Other than the Police Department, authorization of a city-provided vehicle for "take home" use is limited. Field Services assigns, on a rotating basis, one truck to provide rapid deployment if a roadway needs to be cleared. The vehicle is equipped with a winch that can be used to move trees or other debris. Also, it has a service bed and carries tools such as chain saws. It is clearly marked to facilitate recognition as a City vehicle and personal use is prohibited.

Risk Management also assigns a vehicle for response, after-hours, to accidents involving City employees and equipment.² According to the Risk Management Director, the verbal understanding is that the employee can drive the vehicle for personal purposes as a way of facilitating response to a call out. It is clearly marked with the City standard marking pattern but, contrary to the Field Services truck, the sedan does not carry specialized equipment. All other take home vehicles fall under the oversight of the Police Department. Based on information submitted by the department, more than 160 vehicles, including motorcycles, are taken home by police employees on a routine basis. The assignments include the K-9 Unit and the Special Investigative Services Unit as well as:

- The Police Chief, the Executive Assistant Chief, the two Deputy Chiefs, the three District Captains, and the Administrative Services Bureau Director.
- Three employees in the Emergency Services Division.
- Three officers assigned to Internal Affairs.
- Two officers and a Community Liaisons officer in Community Relations.
- Fifteen SROs and four officers assigned to the DARE program.
- Twenty-one officers and one Captain assigned to the Investigative Services Bureau.
- Twenty-four officers assigned to the Violent Crimes, Sex Crimes, and Domestic Violence Units.
- Thirty officers in the Patrol Division.
- Four officers and one Captain assigned to the Professional Standards Division.

Other assignments include a truck assigned to the Fire Support Program and vehicles used for after-hours crime scene call-outs.

Historical Trend Analysis

There was no information available that could be used to outline historical trends associated with the use of take home vehicles.

² According to Financial Services management, this practice has been discontinued.

"Take Home" Programs Approved by Council

In 1994, the Police Department Patrol Division prepared a feasibility study for a Take Home Car Program. Under the parameters outlined, by providing funding for nineteen vehicles,³ the City could provide all eligible patrol employees, living in Scottsdale, with a take home patrol vehicle. As of December 1993, thirty-seven employees were eligible for participation.

According to the study, implementing the program would have several benefits:

- Increase the feeling of safety in neighborhoods due to the increased visibility of patrol cars.
- Reduction in crime due to the increased visibility as officers drove vehicles to and from work as well as while off duty.
- Better maintenance of cars due to the sense of officer ownership.
- Cost-savings through the reduction of maintenance costs and the extended life of the vehicle.
- Increased beat coverage because shift changes would occur in the field.
- Increase in productivity because officers would take action while driving to and from work.
- Quicker response because officers would be able to respond directly to an emergency situation.
- Increase in morale due to the perceived value associated with use of a city-provided vehicle to and from work and while off duty.

While safety and reduction in crime were listed as potential benefits, the study pointed out that there was no empirical data to support the conclusion that the program would achieve the desired impact.

In 1996, the Police Department prepared a Capital Improvement Program (CIP) proposal. The documentation submitted with the proposal outlined that the program was designed to provide a personally assigned, fully marked police vehicle to each patrol officer who resides in the City. The objectives were to:

- Increase visibility thereby increasing the feeling of safety and acting as a deterrent to crime.
- Improve the life span of vehicles due to the personalized care that a vehicle will receive.

³ The practice is to share one patrol car between two shifts so that eighteen vehicles provide sufficient coverage for thirty-six employees. Adding nineteen vehicles to the Fleet would result in thirty-seven vehicles because there would be no need to continue sharing the eighteen currently in service.

- Increase response time to critical events.
- Reduce money needed for mileage reimbursement required for attendance at Court and training.

Participation in the program would be based on:

- Whether the officer was a Field Training Officer.
- Officers who showed outstanding efforts in their community policing efforts.
- Officers living in high crime or target areas of the City.
- Officers in the "Housing Program."

The 1996 proposal was materially the same as the program outlined in the feasibility study with one exception, a change in the expected useful life of a patrol vehicle. According to the 1994 study, Fleet Management reported that the average patrol car was driven 100,000 miles and lasted three years. However, the 1996 CIP proposal reflected that the practice was to keep patrol vehicles in service 60,000 miles and for three years. Under the proposal, the useful life of vehicles in the Take Home Program would be increased to five years and 60,000 miles.

The proposal sought approval to purchase nineteen additional vehicles over a five-year period. Starting in FY '99/'00, four vehicles would be purchased each year through FY '02/'03 and three purchased the final year of '03/'04. The expected cost of the program, including maintenance and replacement, over the five-year period was \$1.73 million.

The Council approved \$1.207 million for the proposal as part of the FY '96/'97 budget adoption. Funding, though, was moved up to allow the Police Department to start acquiring vehicles in FY '97/'98. However, in 1999, as part of the budget process for FY '99/'01, \$643,819 was re-allocated. The funds were transferred out of the capital program and used to provide operating funds for additional patrol officers and aides. As a result, only 15 vehicles have actually been deployed into the program.

City Policies and Procedures Governing Use of City Vehicles

The City has three policy documents⁴ that address the use of city-owned or leased vehicles. The information available is summarized in the insert on the next page.

⁴ Since June 2002, the practice is to refer to the documents as Administrative Regulations (AR). However, since the documents referenced in this report have yet to be revised, they are still titled as Administrative Guidelines (AG).

Current City Guidance Regarding Use of Vehicles

AG 125 City Vehicles and Equipment Operation.

Vehicles, equipment, and tools are to be used only for job-related requirements. "Standby and Emergency status Vehicles" may be taken home with the respective department General Manager's approval for such usage.

Certain designated police vehicles are excluded from the provisions of these guidelines.

AG 204 Automobile Allowances and Mileage Reimbursement.

Personal use of City vehicles is prohibited. Vehicle use, other than commuting, outside of police officer's arrest powers or a fire fighter's obligation to respond to an emergency is prohibited. Any personal use must be authorized and must be incident to law-enforcement functions, such as being able to report directly from home to a stakeout or surveillance site, or to an emergency situation. Use of an unmarked City vehicle for vacation or recreation trips is not authorized.

AG 265 Off Site Use of City Equipment for Work Purposes.

Employees should check the guidelines of their own department and obtain appropriate approval in order to use City equipment off site. This includes vehicles as well as all other City equipment.

SOURCE: Administrative Guidelines 125, 204, and 265 as contained on the "Policy and Guidelines" section of the City Intranet.

As outlined in AG 125, decisions related to the use of City vehicles are made in a decentralized fashion. Each General Manager has the authority to approve taking home a City vehicle if it is needed for standby or emergency response.

Laws and Regulations That Impact the City and Employees When a City-Provided Vehicle is Taken Home

Providing a vehicle for employee use is a fringe benefit.

Fringe benefit – An employment benefit given in addition to one's wages or salary.

SOURCE: Webster's II, New Riverside University Dictionary.

The IRS requires that this be reported as additional employee compensation. In limited instances this can be avoided. The exclusions fall into two categories:

de minimis – The value associated with the benefit is so minimal that it would be unreasonable or administratively impracticable to account for the tax benefit.

working condition – The vehicle is provided specifically so the employee can perform his or her job. This exclusion requires calculation and reporting of compensation from personal use such as commuting but allows the portion of use that is attributable to business use to be excluded.⁵

⁵ This treatment is not required. The employer can report the entire value as compensation and the employee can then deduct the business portion as an itemized deduction.

According to IRS Chief Council Advisory (CCA) 200206053, there are certain conditions where the entire use of an employer-provided vehicle can be excluded. The primary factor in this determination is that the vehicle must be one that the employee is not likely to use, more than minimally, for personal use.⁶ Examples of vehicles that might meet the criteria are provided in the insert below.

Examples of Qualified Non-Personal-Use Vehicles

1. Clearly marked police and fire vehicles.⁷
2. Unmarked vehicles used by law enforcement officers⁸ if the use is officially authorized.⁹
3. An ambulance or hearse used for its specific purpose.
4. Any vehicle designed to carry cargo with a loaded gross vehicle weight over 14,000 pounds.
5. Delivery trucks with seating for the driver only, or the driver plus a folding jump seat.
6. A passenger bus with a capacity of at least 20 passengers used for its specific purpose.
7. School buses.
8. Tractors and other special purpose farm vehicles.

SOURCE: IRS Publication 15b, Employer's Tax Guide to Fringe Benefits, benefits provided in 2002.

⁶ The term qualified non-personal use vehicle means any vehicle that, by reasons of its nature (i.e., design), is not likely to be used more than a de minimis amount for personal use (26CFR, 1.274 5T).

⁷ A police or fire vehicle, owned or leased by a governmental agency, that is required to be used for commuting by a police officer or firefighter who, when not on a regular shift, is on-call at all times, provided that any personal use (other than commuting) of the vehicle outside the limit of the police officer's arrest powers or the fire fighter's obligation to respond to an emergency is prohibited by the governmental unit. A police or fire vehicle is clearly marked, through painted insignia or words, that it is readily apparent that the vehicle is a police or fire vehicle.

⁸ Law enforcement officer – an individual who is employed on a full-time basis by a governmental unit that is responsible for the prevention or investigation of crime involving injury to persons or property (including apprehension or detention of persons for such crimes), who is authorized by law to carry firearms, execute search warrants, and to make arrests (other than merely a citizen's arrest) and who regularly carries firearms (except when it is not possible to do so because of the requirements of undercover work).

⁹ Any personal use must be authorized by the Federal, State, county, or local governmental agency or department that owns or leases the vehicle and employs the officer, and must be incident to law-enforcement functions, such as being able to report directly from home to a stakeout or surveillance site, or to an emergency situation. Use of an unmarked vehicle for vacation or recreation trips cannot qualify as an authorized use.

INTRODUCTION

Allowing a city-owned or leased vehicle to be taken home overnight or on the weekend warrants a great deal of oversight. Taxpayers expect equipment and supplies purchased with City funds to be used to conduct City business. Approval of personal use, such as commuting, without sufficient justification creates a perception that the City is not being prudent in the management of public assets.

In addition to the issue of perception, there are IRS provisions that need to be considered. Allowing an employee to use a city-owned or leased vehicle is a fringe benefit. In most cases, the use creates the need for the City to calculate and report additional compensation. When compensation is excluded, the IRS cautions that each exception must be considered on its own merits. If the City does not ensure appropriate treatment, the City could be held responsible for both the City's and the employee's portion of any tax assessment.

When completing this audit, we structured this work segment to determine if the City:

- Limits the authorization of vehicles as take home, and the subsequent use of the vehicle, in a sufficient manner to assure the citizens of Scottsdale that vehicles are assigned prudently and used appropriately.
- Complies with IRS requirements to report additional compensation when situations warrant.

We found that the City needs to implement:

- Adequate controls to manage the assignment of vehicles as take home.
- Sufficient procedures to ensure that the City complies with IRS requirements to report personal use of city-owned or leased vehicles as additional compensation.

We also found that the City needs to re-evaluate the POTHVP. If the City elects to continue it, then program objectives, performance measures, and written guidelines for the assignment of vehicles, appropriate use, and any required reporting need to be developed.

The following sections will discuss each of these conditions in greater detail.

CHAPTER 1

CITY NEEDS TO IMPLEMENT ADEQUATE CONTROLS TO MANAGE THE ASSIGNMENT OF VEHICLES AS "TAKE HOME"

One of the objectives of the Fleet audit was to determine if the City has sufficient policies and procedures to ensure that passenger vehicles and light duty trucks, whether owned by the City or leased, were adequately managed, effectively assigned, and efficiently/appropriately operated.

As part of the work under that objective, we looked at the controls in place to effectively manage the designation of vehicles for take home use. Using city-owned or leased vehicles to commute to and from work or for other personal purposes opens the City to claims that the fleet is not being adequately managed, effectively assigned, or efficiently used. More to the point, without adequate controls, City funds could be used for expenditures that are not business-related, effectively creating a gift of public funds. As such, it is important that the City adequately administer this use.

Based on our work, we concluded that there is significant room for improvement in the management of take home vehicles. We considered the following circumstances when reaching this conclusion:

- No centralized list of all individuals authorized to take home a City vehicle and no list of vehicles considered necessary for "standby or emergency status."
- No department charged with the authority to establish procedures, independently review the justification given by the user department, or consider any citywide consequences associated with the assignment. Moreover, policies and procedures that do exist are insufficient and do not set appropriate boundaries.
- Department-by-department authority to make decisions regarding assignment, but no documentation at the department level to support the decisions made.
- No tracking of business use to develop sufficient information on which to make decisions regarding the need for the vehicle.
- No mileage or response time limit on the distance a vehicle can be driven when assigned for use in commuting.
- No requirement for individuals to be on-call when taking a vehicle home.
- Redundant assignment of vehicles to service the same need.
- Department policies that conflict with the limited guidance available in citywide regulations.

- No Council or City Manager approved policy outlining the provision of a city-owned vehicle in the same vein as providing a car allowance. Further, in situations in which vehicles were assigned as part of a compensation package, we found no documentation of the agreement in the personnel files maintained by Human Resources.

City Needs to Monitor the Number of Vehicles Routinely Taken Home by Employees

City employees have a fiduciary responsibility to spend taxpayer dollars in an efficient and effective manner. As such, it is important that the assignment of take home vehicles be done in an open manner and with adequate oversight. When decisions are handled in a different manner, the City is open to claims that the process is structured to avoid citizen review.

To demonstrate adequate oversight over the assignment of take home vehicles, we would have expected to find a centralized database or other list identifying everyone in the City who had been approved to take home a vehicle. For vehicles rotated between on-call employees, we would have expected to find a list of all City vehicles approved as "standby or emergency status," thereby providing some evidence that there was concerted thought in the decision to classify the vehicle as necessary for after-hours response. However, neither Financial Services nor Fleet Management had information, on a citywide basis, outlining vehicles approved for these uses.

Without this information, a reasonable person would reach a conclusion that there is no oversight of the decisions made at the department level. Moreover, without centralized reporting, the City is limited in the amount of information that could be provided in a timely manner to a citizen request.

In order to develop information regarding the number and types of vehicles being taken home on a daily basis, we had to survey each department. Initially, Code Enforcement, Risk Management, Field Services, and Fire Support each reported one vehicle. The Police Department reported more than 160 units.

We calculated the percent of the Police Department fleet reported as take home and found that, as of June 2002, more than 60 percent (154 vehicles, not including motorcycles) of the fleet is taken home daily. Of these, only 15 are part of a program actually developed, funded, and approved to provide take home vehicles. All other assignments have been made at the discretion of the Police Chief or City Manager.¹⁰

¹⁰ According to the current Police Chief, most of the assignments were done under the authorization of the previous Police Chief or City Manager.

We also looked at vehicle types that were assigned for take home. Within the Police Department, there is a wide variety driven home. Models range from:¹¹

- Semi-marked¹² 4x4 sport utility vehicles assigned to the Chief of Police, Executive Assistant to the Chief, one of the Deputy Chiefs, and two individuals assigned to the Emergency Services Division.
- Six semi-marked extended cab pickups assigned to the Patrol Division (3) and the Investigative Services Bureau (3).
- Two semi-marked Camaros assigned to officers in the Victims Crime Unit (1) and Domestic Violence Unit (1).
- An Explorer Sport Trac, Durango, and two Camaro Z28s assigned to the DARE Unit.
- A PT Cruiser assigned to the Community Affairs Division.
- A passenger van assigned to the Bike Unit.
- Marked and semi-marked Crown Victorias, Impalas, Intrepids, Tahoes, and Expeditions assigned to other units.

We made inquiries of other municipalities to compare the Police Department's assignment of vehicles. The table below summarizes responses to our question regarding the issue of providing transportation for the Police Chief, Assistant Chiefs, and Commanders.

Municipality	Policy
Chandler	Police Chief and Assistants receive a \$90 car allowance every other week (26 weeks at \$90 = \$195 per month).
Glendale	Police Chief has option of a vehicle or a \$300 per month car allowance. The current Police Chief is assigned a Crown Victoria. The Assistant Chief and Commanders receive a car allowance of \$300 per month.
Mesa	Police Chief and Assistants receive a car allowance of \$300 per month.
Peoria	Police Chief and other Chiefs receive a semi-marked Intrepid. The Police Chief has the option of a \$300 per month car allowance or an Intrepid.
Phoenix	Police Chief and Assistant Chiefs receive a \$370 per month car allowance. Commanders receive a \$230 per month car allowance.
Tempe	Police Chief and Assistants receive a \$500 per month car allowance. The Chief has the option of a vehicle.

According to staff at Glendale, Mesa, Tempe, and Phoenix, the car allowance is equivalent to the amount provided to other managers within the same classification. Staff at Glendale and Peoria, the two cities that reported use of a

¹¹ This list does not include a discussion of the vehicles assigned to undercover personnel.

¹² Semi-marked refers to the fact that the vehicle is equipped with radios, lights, and/or sirens but these items are not readily visible.

take home vehicle, stated that the vehicle assigned to the Police Chief is the same type assigned to others in the department.

We also inquired into the practice of allowing vehicles assigned to the School Resource and DARE programs to be taken home. Only Glendale¹³ reported a similar practice, however, it is important to note that Glendale limits the distance a vehicle can be driven home to a radius of 17 miles from headquarters.

Other municipalities reported various approaches to vehicle assignments. For example, City of Mesa reported that no marked vehicles were assigned for take home. Chandler reported that take home vehicles were limited to individuals on-call. According to staff at Peoria, the assignment of take home vehicles is heavily curtailed. At the time this report was being written, Peoria was evaluating additional options to further reduce assigned vehicles. City of Phoenix reported that all take home vehicles must be assigned a permit before authorization. The permit must be signed by the employee, the Division head, and then filed with the City Manager's Office.

Allowing a department to make unilateral decisions regarding the appropriateness of taking a vehicle home has the potential to lead to inefficiencies and improper use of tax dollars. Each mile a city-owned or leased vehicle is driven outside the normal job duties costs the City money. There is the direct cost associated with fuel consumption. As well, each mile increases the need for maintenance and decreases the useful life of the vehicle. Moreover, the City is exposed to the financial risk associated with the liability for any accidents.

The cost to the City can be exacerbated when vehicle type and added equipment are not limited to the minimum required for the assignment. For example, four-wheel drive vehicles and pick up trucks generally receive lower mile-per-gallon (mpg) ratings. According to the U. S. Environmental Protection Agency Green Vehicle Guide, a 2000 4x4 Tahoe¹⁴ obtains an average fuel economy of 13.14 mpg. The same agency reported an average fuel economy of 12.8 mpg for a 2000 4x4 Dodge Durango and 13.3 mpg for a 2000 4x4 Expedition. Compare these ratings to 19.25 mpg reported for a 2000 Dodge Intrepid.¹⁵

According to mileage reports submitted by the Police Chief, who is provided a 2000 4x4 Tahoe, he drove 14,703 business miles between November 2000 and October 2001. At 13.14 mpg, this volume of mileage would consume

¹³ Mesa no longer has a DARE Program. Tempe did not respond.

¹⁴ The Police Chief is assigned a 2000 4x4 Tahoe as a take home vehicle.

¹⁵ This discussion assumes that the Intrepid would not be an upgraded "police package" Intrepid as there is no indication that the job duties associated with these individuals would warrant the need for a vehicle that would normally be considered a pursuit vehicle.

approximately 1,119 gallons. If the same mileage had been driven with an Intrepid, the estimated fuel consumption would have been 764 gallons.

Moreover, the Executive Assistant Police Chief commutes approximately 50 miles a day in a city-provided 4x4 Durango. Assuming a 5-day workweek and a 49-week work year, approximately 12,250 personal use miles¹⁶ are placed on this vehicle annually. With an average fuel economy of 12.8 mpg, the City incurs the cost associated with approximately 957 gallons of gasoline. If the same commute was accomplished using an Intrepid, the consumption could potentially be reduced to 636 gallons.

While these two examples only result in an additional cost of approximately \$800 per year, it does highlight the inefficiency that can result when decisions are made without consideration of the true need. In addition to being inefficient, the decision is contrary to the City's position on being environmentally sensitive. On one hand, the City will pay a premium to equip a vehicle so alternative fuels can be used in an effort to reduce air pollution, but then, without any evidence to support the need, will turn around and provide employees with vehicles that receive poor fuel consumption ratings.

Inefficiencies also result from assigning a vehicle that has been equipped with emergency lights, sirens, four-wheel drive, or other ancillary equipment such as third row seats. If there is little expectation that the equipment will actually be used, "wants" can result in wasteful spending. For example, each of the four wheel drive SUVs purchased for Emergency Services, cost almost \$4,000 more than the average paid, during the same period, for two wheel drive models assigned to the K-9 Unit. We found nothing to justify the additional expenditure for four-wheel drive.

In total, in 2000 the City spent \$148,808 to equip the Police Chief, Executive Assistant Chief, and two individuals in Emergency Services with fully loaded 4x4 SUVs. Using the cost of the Intrepid provided to the Administrative Services Bureau Director as a comparison, if the same number of sedans had been purchased to provide transportation for these individuals, the City could have saved more than \$64,000.¹⁷

Moreover, when a vehicle is sitting at someone's home, it is not available for other assignments. As a result, the City may be placed in the position of acquiring another vehicle when the need could be served by simply rotating or sharing a vehicle that is already in the fleet. Using Emergency Services as the

¹⁶ During FY '01/'02, 18,504 miles were reported on this vehicle with a fuel cost of \$1,537.

¹⁷ The average cost (purchase plus other equipment) for the SUVs was \$37,202 compared to a cost of \$21,035 for the 2001 Intrepid.

example again, this division is currently staffed with three employees (i.e., Emergency Services Officer, Emergency Services Coordinator, and Workplace Security Coordinator), each of which are assigned a city-provided vehicle and allowed to take it home.¹⁸ As part of our work, we obtained the justification submitted when two of the positions were requested as part of the FY '00/'01 budget. While vehicles were included as part of the request, there is no analysis of the need for a vehicle (i.e., estimated business miles and alternatives considered such as mileage reimbursement). Moreover, there is no mention of the fact that the vehicles would be assigned for take home.

When the Police Department responded to our request for justification, the reason listed for the Emergency Services Officer and Coordinator was "on-call 24 hours a day to respond to structure fires." However, there is no support to indicate that there is a volume of after-hours calls to support the need for redundancy. By simply rotating "on-call" duties, one take home vehicle could be eliminated, thereby achieving a savings of approximately \$38,000.¹⁹ The actual savings, though, would be greater because eliminating the need for the vehicle would also reduce the annual charges by Fleet for maintenance and operation.

The Police Department response to our request did not include a justification for the Workplace Security Coordinator take home vehicle assignment. The documentation submitted when the position was requested did not indicate that the employee would be on-call and the job description, updated in July 2002, only includes a minimum qualification of "available for call-out situations when needed." But, under the current practice, the individual drives a city-provided vehicle, with internally mounted lights and siren, home each night. Because the employee is not required to keep mileage records or document after-hours use, we could not determine the actual need for the vehicle.

While each of the examples discussed previously point out inefficiencies in use of City resources, the most important part of this discussion deals with financial risk. The additional cost associated with unnecessary equipment or options and the added fuel cost can be minimal, particularly when compared to the risk the City incurs each time an employee uses a City vehicle. When the use can be directly tied to a service delivery (i.e., patrol or solid waste collection) a reasonable person would accept that the risk is part of doing business.

But, would this same conclusion be reached if the vehicle were used for commuting or other personal purposes such as going to the bank over lunch hour. Most reasonable people would believe that this risk should reside with the

¹⁸ During the report comment period, Police management indicated that the Workplace Security Coordinator has never been assigned a take home vehicle and that this was previously reported to us in error.

¹⁹ The average cost (purchase plus other equipment) for the two Expeditions was \$38,195.

employee and not the taxpayer. However, under the current process, there is no requirement for Risk Management to review the assignment and concur that there is a sufficient business need to warrant the assignment as a take home vehicle.

Moreover, there is not even a process to ensure that Risk Management is appropriately notified of all vehicles placed in service to ensure that a complete and accurate schedule of vehicles is submitted as part of the City's insurance coverage. During our audit, we inquired as to whether or not Risk Management had any record of the twenty-three leased vehicles assigned to the Special Investigations Section. There was no record. As such, the City has been underreporting the number of vehicles that should be covered.

Responsibility for Establishing Procedures and Reviewing Justification Needs to Be Set

An important element in controlling actions is the definition and documentation of a policy outlining what is considered appropriate.

Policies set boundary conditions so that actions and decisions are channeled along a particular path in pursuit of an objective. Policies allow management to operate without constant intervention and, once established, enable others to work within that framework.

SOURCE: *Establishing a System of Policies and Procedures* by Stephen B. Page.

In order to have well thought out, thorough, documented policies and procedures, the organization must establish responsibility for the development and dissemination of the information. To ensure compliance, someone must have the authority to periodically verify adherence. We found, however, that no department has been charged with this responsibility as it relates to taking home City vehicles. Moreover, no department has the authority to review and challenge decisions made at the department level.

At the time we completed our audit work, the City had three Administrative Guidelines that addressed use of City vehicles off-site. The text of the guidance can be found in the Background section.

The information regarding the appropriate use of City vehicles is very limited. Moreover, it is scattered and not easily identifiable. For example, under the current presentation, it would be difficult for an uninformed person to know that the AG addressing automobile allowances and mileage reimbursement also addressed personal use of city-owned vehicles.

Even when taken into consideration collectively, the information presented does not constitute a comprehensive policy sufficient to set boundaries on the assignment of take home vehicles. For example:

- There is no definition of the term "Standby and Emergency Status" and no requirement for the general manager to document the approval for use in writing.
- There is no guidance on "certain designated police vehicles" that have been excluded.
- There is no guidance on how to determine that personal use is "incidental" to law enforcement functions.

Standby and Emergency Status Needs to Be Defined and Implemented Consistently

During our audit, we attempted to determine if take home vehicles met the criteria outlined in AG 125. However, we could not locate any guidance that could be used to determine what activities justified the need for a vehicle to be "Standby or Emergency Status." Without this guidance, we made our determination on:

- Whether or not the vehicle carried specialized equipment.
- Whether or not the equipment is needed to respond to an emergency.

Of the three non-police/emergency services vehicles reported as approved for take home, only one met our definition; the Field Services truck assigned to respond to road emergencies after hours. It carries specialized equipment that would be needed to respond to an emergency.

We determined that the remaining two vehicles did not meet the criteria. One vehicle, a sedan assigned to Risk Management, is rotated between two employees who respond to Risk-related calls after business hours. There is no unique characteristic to the vehicle or the type of service. As such, we believe the City is merely providing transportation, something that could be accomplished through mileage reimbursement or a monthly car allowance.

The second vehicle was a sedan provided, at the time of our review, to the Code Enforcement Manager. According to management, the assignment was made to provide transportation to evening meetings and for occasional weekend response. Again, this vehicle was simply providing transportation.²⁰

²⁰ Upon our inquiry into the use of this vehicle and the possible need to track mileage for tax purposes, the Neighborhood Services General Manager decided to reassign the vehicle to the department pool.

Exempted Vehicles Need to Be Documented and Justified

According to current City guidelines, certain police vehicles are exempt from the provisions of AG 125. However, there is no list to facilitate the determination that a vehicle has been exempt. Moreover, it was not clear whether or not the vehicles were excluded from the provision that restricted the use of vehicles to job-related activities, the provision that a vehicle be "standby or emergency status" to be taken home, or both.

As such, we could not determine whether this exclusion was meant to address vehicles assigned to the Special Investigations Section (i.e., vehicles used in undercover assignments) or to be more broadly interpreted to other assignments. Based on the age of the AR, however, we were able to determine that the language was not meant to address the POTHVP. This Program was not in place in July 1994, when the current AG was drafted.

Appropriate Personal Use Needs to Be Defined

Personal use of city-owned vehicles is specifically prohibited under AG 204. However, the term "personal use" can be interpreted to mean different things to different people. For example, one individual may believe that it would be appropriate to drive a City vehicle to the credit union or doctor's office during work hours. Another might believe that this use would constitute personal use and should be prohibited, or at a minimum, tracked and included as compensation.

Moreover, the definition of personal use can impact what is considered to be business use. For example, according to terms reached between the current Police Chief and the former Financial Services General Manager, "personal use" only consists of any recreational/vacation use of the vehicle outside the metropolitan area. As such, by definition, all mileage within the metro area is considered to be business related even though the purpose of the trip is actually related to personal activities. The Police Chief has extended this definition to include vehicles provided to the Executive Assistant Police Chief and the Deputy Chiefs. Until our audit, the Administrative Services Bureau Director was also included.

The nature of business use is more difficult to define when an employee is "on-call." The current AGs fail to provide any guidance on what is acceptable when there is an expectation that the employee respond in a timely manner. As a result, we could not determine whether or not an individual would be allowed to drive the City vehicle for personal use, such as attending a party on the weekend, simply due to the fact that they may need to respond to a call. The Risk Management Director has taken the position that this use is acceptable and has given staff approval to use the City take home vehicle for personal use. Appropriate usage within the Police Department varies based on assignment.

For example, vehicles discussed in the previous paragraph and vehicles assigned to the POTHVP, can be used for personal purposes. As well, the Crime Scene Suburban (a vehicle with no external markings) can also be used for personal use within the metropolitan area.

Decisions Need to Be Documented, Supported by Evidence, and Reasonable Given the Nature of the Work

The ramifications of allowing a vehicle to be taken home can be significant, both in additional cost to the City and in citizen perception. As such, we expected decisions to be supported with sufficient documentation of all the pertinent facts. Without appropriate documentation, the City cannot demonstrate that it has been a good steward in the use of public funds.

The insert below contains the information that we would expect to be available when a decision is made to provide a take home vehicle.

<p>Justification Should Indicate the Following Information</p> <p>The unique characteristic of the service that requires use of a specific vehicle to respond.</p> <p>The employee's obligation to respond during off duty hours on days the vehicle is taken home.</p> <p>The amount of standby pay the City will be required to pay to guarantee that the employee will be ready to respond.</p> <p>Historical trends to support the need for after-hours call out.</p> <p>Cost-savings achieved by allowing the employee to report directly to a remote location and the length of time the assignment will continue.</p> <p>The availability of other vehicles to respond to a call-out. If so, documentation of trend analysis to support the need for redundancy.</p> <p>Verification the employee will be able to respond in a timely manner given the distance driven home.</p> <p>Alternatives considered.</p>

SOURCE: Audit Analysis.

As part of our work, we asked departments why vehicles were taken home. The responses varied but generally consisted of two common themes. The first dealt with being on-call 24 hours a day, 7 days a week. The second addressed saving money and/or time by allowing the driver to report directly from home to various work locations. While the reasons would generally be considered valid justification, we found no documentation available to support the decisions.

Instead, staff could only relate anecdotal information regarding the need for a take home vehicle. For example, Risk Management stated that the assigned vehicle was equipped with emergency lights to facilitate movement through traffic to get to an accident scene faster. However, after-hours responses are not tracked so there is no historical data to support the need for a specially equipped vehicle. Moreover, we found no City policy or Risk Management specific guidance stating that it was appropriate for non-police staff to use emergency lights while in route to an after-hours call.

The same holds true for the assignment of four-wheel drive vehicles to Emergency Services staff. We were told that the nature of the call might require taking the vehicle off-road or through other hazardous road conditions. Again, there was no historical documentation regarding instances requiring this type of use and, more importantly, no procedure setting out when it would be appropriate for staff to take a vehicle into a situation that required specialized equipment.

Without sufficient documentation at the department-level to support decisions, the City cannot defend the need for the assignment. More importantly, the City would not be able to demonstrate that alternatives were considered. A well thought out decision process would require the consideration of alternatives.

After-Hours Use Should Be Tracked

When the designation of a take home vehicle is justified by a need to respond to after-hours calls, we would expect a requirement for the use to be tracked. This information would provide management with the ability to project future needs as well as justify the on-going need for the vehicle to be taken home.

We asked the Police Department and Risk Management if they tracked the after-hours use of the vehicles that are assigned for take home. This information is not captured. According to the Police Department, the information could be recreated using overtime reports for those personnel eligible for overtime pay. However, based on classification of employees assigned vehicles, we believe that this methodology would not provide useful information.

City of Phoenix provided us a copy of their citywide regulation governing the use of city-owned vehicles. Each month, any employee who drives a city-owned vehicle to their home overnight on a continuous or rotating basis must report any use of the vehicle, after hours, for city business. To ensure that usage can be tracked, the approval to take a vehicle home must be evidenced by a permit.

For vehicles that will be taken home overnight on an occasional basis, Phoenix allows the department head to approve a temporary use permit. The authorization form must be turned into the Motor Pool for tracking. For situations

in which the overnight use will be routine, a permit must be completed, approved by the department head, and filed with the City Manager's Office.

City of Tempe also tracks use during after-hours. As well, the Mesa Police Department has initiated tracking of after-hours criminal investigation vehicles.

City Needs to Limit the Miles in Which a Vehicle Can Be Driven

A major factor in the consideration of whether or not a vehicle should be approved for "take home" is the number of miles that will be driven as part of the commute. There are several reasons why this should be considered. First, it impacts whether or not an employee could respond in a timely manner given the travel distance from their residence. Second, excessive mileage increases the cost of operation and impacts any cost-justification used to support the assignment. Moreover, without consideration of the risk associated with the additional miles undertaken as a result of the commute, it is difficult for the City to demonstrate that it has satisfied its fiduciary role to consider potential risk and take appropriate steps to reduce or mitigate any risk.

We found no indication, however, that mileage is considered when a vehicle is approved for take home. Contrary to the POTHVP that limits the assignment of vehicles to officers who live in Scottsdale, no limit is set for other take home vehicles. The Police Department stated that an employee would not be assigned a take home vehicle if the residence fell outside Maricopa County. This restriction is not documented, however.

We asked other cities about limits in commuting distance. Phoenix, Glendale, and Peoria have restrictions. Mesa, Chandler, and Tempe do not. To gain insight into the distance that vehicles are taken home, we calculated the commute for vehicles taken home within the following two sections.

Traffic Enforcement Section

Justification for the take home vehicles was that "personnel in the section have 'call-out duties' for investigation of fatal/life threatening motor vehicle accidents and a reduction in response time allows the roadway to be reopened in a shorter time." There is, however, no performance measure associated with desired response time.

Moreover, seven out of the ten non-motorcycle vehicles are not visibly marked. This may fuel speculation regarding the need for these take home vehicles given that there is no apparent need for maintaining confidential status. However, Police management said that there are undercover aspects to Traffic Enforcement duties, such as work involving aggressive drivers, drunk drivers,

covert surveillance related to investigations, and the service of arrest and search warrants. Duties listed in the justification for the take home assignments are:

- Investigating fatal and life threatening motor vehicle accidents.
- Investigating any motor vehicle accident that results in major damage to City property.
- Investigating accidents involving potential liability to the City.
- Investigating accidents when a police vehicle is operating in emergency mode.
- Requesting commercial vehicle inspections on commercial vehicles involved in collisions.

Only two of the individuals²¹ in this section live in Scottsdale. Others reside in Mesa, Cave Creek, Litchfield, Phoenix, Glendale, and Chandler. Moreover, vehicle #1176 is actually operated by a Police Aide. We calculated the roundtrip commute (motorcycles not included) from the major crossroads of their home residence to the assigned duty station.²² The insert below shows the additional miles placed daily on the vehicles. When a unit number is highlighted with bold text, it indicates that there are no visible external markings on the vehicle to indicate City ownership.

Traffic Enforcement Section Commute		
<u>Vehicle #</u>	<u>Vehicle description</u>	<u>Roundtrip</u>
1682	1998 Ford Crown Victoria	23.0
1176	1996 Chevrolet Van	28.0
1526	2001 Ford Crown Victoria	28.2
1130	1999 Chevrolet C20 Pick-up	31.3
1681	1998 Ford Crown Victoria	31.4
1701	1999 Ford Crown Victoria	36.4
1133	2000 Chevrolet Extended Cab Pick-up	46.0
1192	1997 Chevrolet C20 Pick-up	51.0
1683	1998 Ford Crown Victoria	57.0
1143	2002 Chevrolet Extended Cab Pick-up	<u>59.2</u>
AVERAGE		39.2

SOURCE: Auditor analysis and Mapquest.

This information illustrates the wide variances in the ability to respond to a call-out in a timely manner. When a take home vehicle is justified based on the

²¹ Not including Motorcycle Officers.

²² According to the Investigative Services Bureau Chief, all Traffic Enforcement personnel report to District One.

critical nature of the service delivery, minimum response times should be established and there should be an expectation that an employee could respond within that time.

There may also be situations where the number of after-hours responses are infrequent but the importance of the business need is still high enough to warrant rapid deployment. For these types of situations, alternatives should be considered such as leaving the vehicle at the nearest City facility along the employee's commuting route where it can be picked up if a response is needed.

School Resource Officers and the DARE Program

The ability to save money or be more efficient in service delivery was the primary justification for allowing SROs and DARE officers to take vehicles home. As part of our work, we looked at the commute associated with this decision. The process was similar to what was discussed previously but we deducted the mileage that would normally be incurred from their assigned duty station to the off site facility.²³ Instances that show a negative commute variance indicates that mileage is saved by having the officer report directly to the school. When looking at these numbers, however, it is important to remember two things. First, in situations showing a reduction in mileage, an equivalent savings could be achieved by changing the reporting location. Second, miles driven will change during the course of the year because school is not in session each day of the year.

The following insert shows the additional mileage, on a daily basis, resulting from the decision to allow the DARE vehicles to be taken home.

DARE Commute Variance		
<u>Vehicle #</u>	<u>Vehicle Description</u>	<u>Roundtrip Variance</u>
1166	1995 Chevrolet Camaro Z28	9.8
1124	1999 Dodge Durango	14.0
1104	2001 Ford Explorer Sport Trac	47.0
1553	2001 Chevrolet Camaro Z28	<u>63.4</u>
AVERAGE		33.6

SOURCE: Auditor analysis and Mapquest.

The insert on the next page shows the same information for the vehicles assigned to SROs.

²³ For DARE Officers, we used the average commute based on the four to five schools to which they report.

SRO Commute Variance		
<u>Vehicle #</u>	<u>Vehicle Description</u>	<u>Roundtrip Variance</u>
1705	1999 Ford Crown Victoria	(26.0)
1509	1997 Ford Crown Victoria	(17.4)
1706	1999 Ford Crown Victoria	(13.4)
1674	1998 Ford Crown Victoria	(10.0)
1734	1999 Ford Crown Victoria	1.8
1708	1999 Ford Crown Victoria	6.2
1689	1998 Ford Crown Victoria	17.6
1728	1999 Ford Crown Victoria	20.8
1742	2000 Ford Crown Victoria	23.8
1760	2000 Ford Crown Victoria	25.4
1707	1999 Ford Crown Victoria	38.2
1702	1999 Ford Crown Victoria	47.4
1730	1999 Ford Crown Victoria	<u>50.8</u>
AVERAGE		12.7

SOURCE: Auditor analysis and Mapquest.

Each of the vehicles assigned to an SRO is a fully equipped patrol car with an average cost of approximately \$29,500. When school is not in session, the officers are re-assigned to the Investigative Services Bureau. As such, there does not appear to be any justification for assigning a patrol car to this function. If a marked Intrepid (without the external light bar and cage) or other similar vehicle was used for this service delivery, the capital outlay could have been reduced approximately \$8,000 per vehicle.

Authorization to Take a Vehicle Home Should Be Tied to Obligation to Respond

When authorization to take a vehicle home is justified by the need to provide adequate coverage for after-hours calls, a reasonable person would anticipate that the employee truly had an obligation to respond. As such, we expected to find restrictions on activities so that the employee remained within an appropriate response area and was capable of safely responding (no alcohol consumption or medication that adversely affects motor skills).

However, we found that this was not the case. In most situations, Police personnel reported a requirement to respond 24 hours a day, 7 days a week. There is a difference, though, between being subject to call-out after hours, if needed and "on-call" status. Only those officers that have restrictions on their activities while off-duty are truly "on-call." For example, within the Traffic Enforcement Section, only four officers are actually "on-call" on a routine basis.

Other personnel take vehicles home to provide back up coverage but each has the discretion to respond or not. As a result, the City is providing transportation without any assurance that the officer would be available.

If an employee has a take home vehicle for the purpose of responding during off duty hours but has the discretion to decline response because of their personal activities, this should be an indication that other alternatives need to be considered.

Redundant Assignments Should Be Evaluated

The Traffic Enforcement Section previously referenced, provides only one of the examples of redundant take home assignments. Others include:²⁴

- Three vehicles assigned to Internal Affairs.
- Four vehicles assigned to Community Relations/Community Affairs.
- Three vehicles assigned to Emergency Services.
- Five vehicles assigned to Professional Standards.
- Twenty-two vehicles assigned to the Property Crimes Investigation Section.
- Twenty-nine vehicles assigned to the Victims Crime Unit, Sex Crimes Unit, Domestic Violence Unit, as well as Police Crisis Intervention Specialists.

According to the justification, Internal Affairs personnel are required to respond to events that require immediate follow-up. However, there is no indication that the volume of after-hours calls warrants the need for three individuals to be able to respond each night. Documentation submitted by the Police Department indicated that the actual "on-call" weekend duties are rotated between the three individuals. The Lieutenant assigned to the work area handles any weekday "on-call" response. As such, there is no apparent justification to support the authorization for the two remaining individuals to take home vehicles when not "on-call."

The justification for the Community Affairs section was based on a "varied schedule." According to the documentation, staff assigned to this area work a varied schedule that requires response all hours of the day. Staff is also required to transport specialized equipment and responding to the event directly from home circumvents the need to go to the station and then the event. However, again, there is no justification to support the need.

²⁴ The background section includes information on the number of vehicles taken home and the assignment. This list is only an example of the redundancy.

Before allowing multiple vehicles to be taken home to serve the same business need, an evaluation should be made as to whether the business need supports the number of individuals assigned. If the volume does not support the need for more than one employee, then a vehicle could be rotated among staff actually on-call. Another option would be to have a pool of take home vehicles available for use when a vehicle is actually required.

Policies Adopted by Departments Need to Be Consistent With City Policy

When a citywide policy is developed, there should be an expectation that department specific policies are consistent. Normally, department specific policies and procedures are used to enhance citywide directives or provide specific direction based on the unique need associated with service delivery. However, we found that the Police Department has adopted policies that conflict with the City policy regarding personal use. According to Police General Orders:

Assigned take-home vehicles will be used only for official department business with the exception of vehicles assigned to the Chief, Executive Assistant Chief, Deputy Chiefs, and officers assigned to the Police Housing/Take Home Patrol Car Program. Use of the excepted vehicle will be guided by the applicable employment agreements, memorandum of understanding, and program rules respectively.

We inquired about employment agreements that set out the terms and conditions of use and found that Human Resources did not have a record of an employment agreement for any of the individuals in the positions listed in the General Orders.

City Needs to Adopt an Administrative Guideline Providing for the Assignment of Vehicles as Part of a Compensation Package or Disallow the Practice

The City has a documented guideline setting out the practice of providing a car allowance for the Mayor, City Council, Charter Officers, and certain administrative staff. The amount provided ranges from:

- \$550 – City Manager
- \$500 – Mayor
- \$350 – City Council and Assistant City Managers
- \$300 – Charter Officers and General Managers

The AG also states that the City Manager has the authority to set car allowances for other staff based on the fact that the job requires extensive travel. The following amounts are set out as approved by the City Manager:

- \$150 – Community Maintenance & Recreation Director
- \$150 – Contracts Administrator²⁵

The Intergovernmental Relations Director also receives a \$300 per month allowance when the State Legislature is in session.

A car allowance can be considered an additional form of compensation because there is no expectation that the employee actually drives enough business miles to justify the allowance provided. Moreover, there is no requirement for the employee to return any amount not used. The full allowance is reflected each month as compensation to the employee.

The AG does not mention the possibility of providing a take home car in lieu of a car allowance. However, we found that this is the case with the Police Chief. He stated that the city-provided vehicle in lieu of the \$300 car allowance is the result of an employment agreement approved by the former City Manager. This agreement, however, is not documented.

As well, the AG does not grant general managers, or other officials, the authority to set car allowances for other staff and it definitely does not grant authority to assign vehicles as a compensation package. However, the vehicle provided to the Administrative Services Bureau Director for her use was part of the compensation discussed when she was hired, as both she and the Police Chief acknowledge. Again, there is no documentation to support this arrangement.

Providing use of a city-owned or leased vehicle as part of a compensation package is something that should not be undertaken without due consideration. If not approached correctly, the process can create disparity among staff and lead to feelings of favoritism. This situation exists for two reasons.

First, when an employee receives a car allowance, the City has no leeway in how to treat the compensation. It must be reported on the employee's W-2. As a result, the employee must keep records related to mileage and expenses if they have any interest in claiming a deduction for the expense. Even then, the ability to deduct the expenses hinges on their ability to itemize deductions. However, when the City provides a vehicle, the employee is only liable for taxes associated with the personal use of the vehicle. Most importantly, if the City determines that the vehicle meets certain criteria, all use could be considered non-taxable.

²⁵ The AG does not identify whether this is provided to one particular person or to everyone identified by job title as a Contracts Administrator.

Second, employees who receive a car allowance or must submit mileage reimbursement requests when a personal car is used, bear the entire risk of operating the vehicle. The employee must pay for maintenance, fuel, insurance, and the deductible should the vehicle be damaged. If the employee is involved in an accident while on personal time, the City has no obligation to intercede in the issue and will not be in the position to be required to respond to any claim for liability. However, in a situation in which the City provides a vehicle in lieu of an allowance, the City assumes all cost associated with the maintenance and operation of the vehicle. The employee has no obligation to provide insurance on the vehicle; there is nothing that would require the payment of a deductible if the vehicle is damaged while being used, and the City would be the primary point of response should an accident result in a liability claim.

CHAPTER 2

CITY NEEDS TO COMPLY WITH INTERNAL REVENUE CODE REQUIREMENTS TO REPORT ADDITIONAL COMPENSATION

A significant amount of the City's operating budget is based on privilege tax collected and paid by businesses in the community. The City expects these taxpayers to understand their obligation, calculate the tax due accurately, and file timely reports to submit any tax due. Similarly, the federal government expects citizens of Scottsdale to adhere to income tax regulations and pay their appropriate tax liability. The City should not be held to a lower standard. To do so, would be unethical.

When completing this work, we structured testing to determine if the City complied with IRC requirements to report, except in limited situations, additional compensation when the City provides a vehicle and it is subsequently used for personal purposes. The scope of testing was limited to the preceding four calendar years (1998, 1999, 2000, and 2001). To demonstrate compliance with IRC provisions, we would have expected the City to be able to:

- Assert that personal use, other than commuting, was prohibited and substantiate that a process existed to report, if applicable, any compensation associated with the use for commuting.
- Acknowledge that personal use was allowed and demonstrate either:
 - That appropriate documentation of personal/business use was required and personal use was reported as compensation.
 - The entire value of the vehicle was reported as compensation because the City did not obtain information regarding the use.
- Substantiate that there was no need to comply with provisions because any personal use of a city-provided vehicle was either:
 - Minimal and, therefore, excluded from the requirement for reporting as it would be administratively impracticable or unreasonable to track.
 - Associated with a qualified non-personal use vehicle.
 - Personal use of marked vehicles, outside the limit of the Police Officer's arrest powers or a Firefighter's obligation to respond to an emergency, was prohibited.
 - Use of an unmarked vehicle was limited to qualified law enforcement officers with personal use, if any, authorized by the City and incident to law enforcement functions.

We found that, for the years reviewed, the City could not provide sufficient information to allow us to conclude anything other than that the City has not been and, is still not, in compliance with federal regulations to report additional

compensation when a City vehicle is used for personal purposes. By not complying, the City has, in effect, provided a gift of public funds to individuals who should have been charged additional compensation. We believe the situation exists as a result of:

1. No requirement to notify Financial Services when a vehicle is assigned for take home use.
2. No established process outlining how to calculate compensation when a determination has been made that the employee is receiving a taxable fringe benefit.
3. No City policy outlining when a vehicle qualifies for "qualified non-personal use" exclusion. For example, guidance outlined in 26CFR, 1.274-5T, and supported by CCA 200206053:
 - Precludes the determination that a marked or unmarked police vehicle qualifies for a "non-personal use" exemption if operated by a civilian.
 - Requires the vehicle to be operated by a police officer that is on-call.
 - Requires an unmarked vehicle to be operated by a law enforcement officer who is authorized by law to carry firearms, execute search warrants, and to make arrests and who regularly carries firearms (except when undercover work would make it not possible). Use as a take home vehicle must facilitate reporting directly to a stakeout, a surveillance site, or to an emergency situation.

The issue with notice to Financial Services was discussed in the first Chapter. The remaining issues will be discussed in the following sections.

City Needs to Establish a Process Sufficient to Ensure Compliance with Regulations

According to the manager responsible for Payroll, the final decision regarding taxable status would rest with Financial Services. However, based on the current process it does not appear that procedures are sufficient to ensure a thorough analysis prior to arriving at a decision. When discussing this particular issue, it is important to keep a proper perspective on what occurred in the past and focus on ensuring a correct process in the future. This admonition is necessary because, prior to the start of our audit, the Payroll Division was only tracking the use of one City vehicle.

As such, a reasonable person may conclude that past performance is appropriate given the circumstances. It would be easy to argue that, due to the materiality associated with one vehicle, there was no need to worry about policies and procedures.

However, it is also a generally accepted belief that there is a greater potential for compliance when a process is established and documented. So, even though it appeared to be immaterial, the situation might have been different had Financial Services developed, and disseminated, sufficient policies and procedures outlining the tax consequences, the method for reporting, and the obligation to inform Financial Services of any vehicle routinely assigned for take home.

This did not happen. For example, there is no discussion of potential tax consequences, the City's position on calculating additional compensation when warranted, or who has the authority to make a decision regarding taxable status in any of the written guidance addressing use of a city-provided vehicle. Moreover, there is no indication that Financial Services has been proactive in framing the issue of fringe benefits arising from the use of a city-provided vehicle. As a result, Financial Services missed the opportunity to set the course for compliance thereby effectively allowing user departments or outside influences to set policy.

City Needs to Require Documentation

When an employee is provided a city-owned or leased vehicle and is allowed to use it for personal or commuting purposes, certain actions must be taken. Specifically, unless the vehicle is a qualified non-personal use vehicle, the City must require the employee to track business and personal use and either:

- a. Submit the documentation.
- b. Submit a statement summarizing the use.

To qualify as a working condition fringe, the business use must be deductible as a business expense by the employee. This means that the employee must keep a log to account for the business miles driven.

SOURCE: Internal Revenue Service Chief Council Advisory 200206053.

If business use is not tracked, then the City must include the entire value of the vehicle as additional compensation.

The IRS requires that the City maintain sufficient documentation to demonstrate compliance. As such the City must retain either:

- The documentation submitted by the employee.
- The statement from the employee documenting the use.
- Proof that the entire value of the vehicle was included as compensation.
- Evidence to support the conclusion that the vehicle met the criteria for exclusion.

During the four-year scope of our audit, the City considered the need to report taxable compensation on:

- The vehicle assigned to the Police Chief in 1998, 1999, 2000, and 2001.
- The vehicles assigned to the Administrative Services Director in 2001.
- Vehicles assigned to the Executive Assistant Police Chief and one Deputy Chief in 2001.

After reviewing the documentation, we found that the Payroll Division has not implemented procedures sufficient to ensure that the calculation of compensation is accurate. For example, we found:

1. The purchase price used to calculate the lease value for the Administrative Services Director in 2001 did not agree with the information on the City's inventory. The information provided to Payroll by Financial Services staff indicated a purchase price of \$20,333 equating to a lease value of \$5,600. However, according to Fleet records, the purchase price of the vehicle was \$21,035 requiring a lease value of \$5,850.
2. The lease value used to establish the compensation for a vehicle assigned to the Administrative Services Director from October 2000 through May 2001, was based on the used car value instead of the new car purchase value. According to IRS publications, this treatment is only appropriate if the vehicle was placed into service used. This does not appear to be the case.
3. Payroll elected to use a standard cost of fuel to calculate the additional compensation to be included when an employee used city-provided fuel instead of purchasing replacement fuel. According to IRS publications, if the fuel is charged to the employer, the actual cost of the fuel is generally the method used to calculate the compensation. Because the City tracks fuel usage by vehicle, this information was available and should have been used instead of the standard cost of fuel.
4. Forms used to report 2001 mileage no longer required the employee's signature stating that daily logs were maintained. Moreover, the forms indicated that the term "business miles" was based on definitions in the City of Scottsdale "Payroll Administration Guide #38 and IRS Publication #917." However, when we inquired about the guide, Payroll stated that they could not locate the referenced material. The IRS publication no longer exists.
5. The process has not been consistent. In 1998, the City required the Police Chief to provide quarterly statements. The statements included a signature line where the employee could sign to indicate that daily mileage logs were kept. It also appeared, perhaps, that there was some additional

guidance available as the forms referenced additional documents. However, in the following two years, Payroll settled for e-mail setting out recreational use. The insert below shows what was reported over the last four years.

Year	Total Miles	Reported Recreation/Vacation Use	Additional Compensation
1998	12,831	1,093	588.36
1999	None reported	No recreational use	-0-
2000	18,634	383	155.00
2001	18,725	220	158.48

Perhaps it is purely coincidental that the year with the highest reported recreational use was also the year in which the City required quarterly reports and a signature indicating that mileage logs were maintained daily. Other explanations such as a change in definition of personal use or personal choice may also factor into the number of miles.

6. The purchase price used to establish the lease value for the vehicles assigned to the Police Chief and the Administrative Services Bureau Director were based on the inventory cost, which will include specialized equipment, instead of invoice price. According to IRS guidance, the cost of specialized equipment can be excluded from the calculation if the equipment is necessary for the employer's business needs.
7. No compensation was reported for the Executive Assistant Police Chief or the Deputy Chief. According to Payroll, this decision was based on the fact that the use was considered "non-qualified personal use." Payroll could not provide documentation of the consideration given when electing not to report compensation.

All in all, the impact of any individual discrepancy discussed above is immaterial but the situation does serve to highlight why the City needs to thoroughly document the process that will be followed when compensation is warranted.

The amounts listed on the insert also highlight why Financial Services needs to ensure that employees report all required information. For example, the insert above shows that the Police Chief reported a lower amount of recreational usage in 2001 but the compensation to him increased. The increase is the result of the assignment of a new vehicle thereby requiring a higher annual lease value. The 2000 calculation was based on a lease value of \$7,750 (1997 Tahoe with a value of \$28,817). The 2001 calculation was based on a lease value of \$10,750 (2000 Tahoe with a value of \$40,133).

However, the transition to a new vehicle occurred in September 2000, two months prior to the cutoff date of October 2000. Because mileage reported was

a lump sum for the entire period covered, there is no way to determine if the recreational mileage took place before or after the acquisition of the new vehicle. When Payroll completed the calculation, the value was based as if it occurred prior to the new acquisition but there is no evidence to support this as a valid assumption.

While the amount in question is immaterial (a total of \$60, if all usage was after the new vehicle), the discussion highlights the need for a standardized process with timely reporting. If the personal use had been more significant, the dollar impact would have increased correspondingly.

Exclusions Need to Meet Federal Criteria

As outlined in the Background and discussed earlier in this section, the IRC limits what can be considered a "qualified non-personal use vehicle." First and foremost, it must be a vehicle that is not likely to be used, more than minimally, for personal use. Second, if it is a marked police or fire vehicle, it must be clearly marked and operated by a police officer or firefighter who is required by the City to be on-call at all times. Finally, if the vehicle is unmarked, it must be operated by a law enforcement officer who regularly carries a firearm and conducts usual and customary law enforcement functions. Moreover, all personal use must be authorized by the City and incident to the ability to carry out the required law enforcement functions.

Classifying a vehicle as "qualified non-personal use" can result in advantages to the operator. Under IRC provisions, there is no requirement to track and report usage and, therefore, the requirement for documentation goes away. Second, if the employee is required to drive the vehicle at all times to facilitate a response to an emergency, then all use can be considered business related, eliminating the need to report additional compensation, even for the mileage related to the commute.

As a result, an employee assigned a take home vehicle has a vested interest in how it is classified. Therefore, any determination needs to rest with a qualified independent party and be driven by City policy. After all, the City will be financially liable for any unpaid taxes should an inquiry determine that the treatment was not correct.

However, this does not occur. When conducting our work, we looked at decisions made by Financial Services between 1998 and the end of our work. The following six situations were reviewed because Financial Services had either specific knowledge of the fact that the vehicle was used as a take home or the situation was brought to the attention of the Department during our audit:

- The Police Chief. According to Financial Services, this was the only vehicle they were aware of prior to the start of our audit.
- The Administrative Services Bureau Director. Compensation was reported for use between November 2000 and October 2001 after we brought the vehicle to the attention of Financial Services.
- The Emergency Services Officer and Emergency Services Coordinator. Compensation has not been reported as a result of an opinion from an attorney in the City Attorney's Office.
- The Executive Assistant Police Chief and a Deputy Chief. Compensation has not been reported because Payroll considers the vehicle use to be "non-qualified personal use" and the employees indicated that there is no recreational use of the vehicles.

In each case listed above, the City provided an unmarked vehicle that was then used to commute to and from the employee's residence. The Police Chief, Executive Assistant Police Chief, Deputy Chief, and the Administrative Services Bureau Director also used the assigned car for personal use while off-duty.

Police Chief

The situation with the Police Chief is unique in that Financial Services was aware of the use and any direction taken by Payroll staff was driven by an agreement, apparently verbal, between the Police Chief and the former City Manager. The former General Manager, Financial Services, then instructed Payroll staff on the reporting frequency that was to be followed. According to notes written on mileage statements submitted by the Police Chief during 1998, the determination that all mileage, except recreation/vacation use, was considered business related was per an agreement with the previous General Manager, Financial Services.

Because the arrangement was not documented, there is nothing outlining what was discussed. As such, we have no insight into what led to a determination that the vehicle qualified as a non-personal use vehicle. For example, we could not determine whether or not the previous General Manager knew that the vehicle was unmarked. Moreover, we could not determine the impact of compensation agreements that were made outside the control of Financial Services.

Regardless, based on our review of the job description for the Police Chief, we could not reach the same conclusion. There is no requirement to indicate that the City expects the Police Chief to regularly carry a firearm and actively carry out functions related to actual law enforcement duties (i.e., serving search warrants, pursuing offenders, making arrests, carrying out investigations).

Moreover, we looked for contracts, memos of understanding, or employment agreements that set out any conditions associated with the use of the vehicle.

We found none. One of the specific requirements that must be met in order for an unmarked vehicle to be considered as "non-personal use" is that the City must officially authorize any personal use and it must be incident to carrying out law enforcement functions. Without any documentation, there is no historical record to support the claim that personal use was officially authorized and how it relates to the duties associated with law enforcement. In fact, current written guidance specifically states that personal use is only appropriate if it is incident to law enforcement functions such as being able to report directly to a crime scene, stakeout, or other emergency. Use for recreation/vacation is specifically prohibited. The manager over Payroll indicated that she obtained the Police General Orders to gain insight into the use of the vehicle.

Administrative Services Bureau Director

During our audit, we questioned the appropriateness of providing a take home vehicle to the Administrative Services Bureau Director. Contrary to the Police Chief, who would be eligible for a car allowance under the current City policy, there is nothing that would indicate that the City intended for director-level positions to be eligible for this type of arrangement. With the exception of one specific position, no other Director within the City receives a car allowance. Moreover, AG 125 sets out a process in which the City Manager can elect to provide individuals, who drive their personal vehicle on City business extensively, with a car allowance. There is no indication, though, that this method was considered prior to providing the vehicle.

The Police Department has assigned a vehicle to this individual since 1998. Until 2001, operating funds were used to lease the vehicle. This avoided the need to obtain Council approval to add a vehicle to the fleet. To provide the vehicle, the City spent \$660 (not including fuel) a month or \$7,920 annually.

However, in May 2001, the Police Department acquired a vehicle for the Administrative Services Bureau Director. To accomplish this, funds requested for vehicles for assignment to a narcotics unit known as "Knock and Talk" were used.

Financial Services did, after our inquiry, determine that it was necessary to report compensation related to the vehicle's personal use and required the Director to submit information on personal usage between November 2000 and October 2001. But, unlike other compensation matters, the City paid both the employee's and the employer's portion of the tax liability. This decision, as reported to us, was made in consultation with Human Resources and was based on a feeling that it was unfair to require the employee to pay taxes on the compensation when the City did not meet IRS requirements to inform her that there would be no related income tax withheld from her wages. The use of this vehicle clearly does not meet the criteria for a qualified non-personal use vehicle. As such, the City

must require that the employee maintain a record of use and submit timely statements regarding personal use and business use. At the conclusion of this audit, a procedure sufficient to ensure compliance had yet to be implemented.

Continuing to provide a City vehicle to the Administrative Services Bureau Director without consideration of the consequences has the potential to create an appearance of favoritism and could set a precedent of how future vehicles are assigned. For example:

- The Director receives the benefit of using city-provided fuel, a practice that allows her to provide fuel for her personal consumption at a rate much lower than what other employees pay.
 - Between May 2001 and October 2001, the City supplied 215 gallons of gasoline at a cost of \$257 to the vehicle assigned to the Director. Based on the 2001 usage report, the vehicle was used 80 percent for personal and 20 percent for business. Using the standard fuel rate established by the IRS, the City charged her \$178.42, or \$1.03 per gallon based on a usage of 172 gallons (80 percent of 215). However, the average paid by the City for gasoline during this period was \$1.19. As such, the amount charged was even less than what the City paid to provide the benefit.
 - In August 2001, according to the Arizona Automobile Association Daily Fuel Gauge Report, the average price per gallon of gasoline was \$1.38. Even if the City charged the Director the actual cost of fuel, she still saves 19 cents per gallon used. Outside of the Police Department, no other City employee has this advantage.
- The City incurs all risk associated with the operation of the vehicle regardless of the nature of the use. As a result, the Director is not required to provide insurance on a personal vehicle. This is not a benefit provided to any other employee outside of the Police Department and significantly increases the value of the compensation package.

Emergency Services

There was a different outcome for the vehicles assigned to staff in Emergency Services. Initially, when we raised the issue with the Emergency Services Officer, he informed us that he had been reporting his personal mileage and had, therefore, assumed that it was reported to the IRS. When we told him that Payroll had no record of mileage, he stated that the mileage related to commute was probably provided about eight years ago, not on an annual basis, and he assumed that Payroll used the information each year to report additional compensation. When we told him that there had been no consideration of compensation in the last four years he made an inquiry to one of the attorneys in the City Attorney's Office as to appropriate tax treatment.

The inquiry covered both the Emergency Services Officer as well as the Emergency Services Coordinator. It did not include the Workplace Security Coordinator even though this employee also is assigned a vehicle. After research, the attorney provided a written opinion that the usage was such that the vehicle qualified for exemption as "a qualified non-personal use vehicle" and therefore, no tax should be withheld. Payroll followed this guidance and is not requiring these two individuals to track and report usage.

In the memorandum, the City Attorney staff member cited several factors when reaching her conclusion, including:

1. Both of them respond to Code 3 (major) structural fires, are required to hold firefighter certification, and "suit up" for incidents including fire and hazardous materials releases.
2. The nature of the duties of both the Emergency Services Officer and Emergency Services Coordinator dictate 24-hour availability. This means that they both remain on call constantly.
3. They drive regular-looking SUV-type vehicles but both are outfitted with communications and safety gear needed for the job. Both vehicles are marked. Neither employee uses them for more than de minimis personal purposes.

We obtained the job description for both of these individuals and found no mention of a requirement for the employee to hold firefighter certification. We also contacted the State Fire Marshal and confirmed that neither employee is listed as a certified firefighter. According to the Executive Assistant Police Chief, to whom the Emergency Services Division reports, the requirement to "suit up" is limited to actions needed to be able to monitor the efforts of Rural/Metro. There is no expectation that either employee "suit up" to participate in fire suppression or emergency response functions.

We also confirmed that, at the time the opinion was written (and even at the time this report was written), the only markings on these two vehicles consisted of a "bumper sticker" type of decal placed on the rear panel of the vehicle. We do not believe that this satisfies the IRC requirement that the vehicle be clearly marked.

A police or fire vehicle is clearly marked if, through painted insignia or words, it is readily apparent that the vehicle is a police or fire vehicle.

SOURCE: 26CFR, 1.274-5T.

The insert on the following page shows the limited marking that was placed on the vehicles in early 2002 after our inquiry.



There is no other marking on the front or either side of the vehicle that would lead an observer to conclude that the vehicle was a police or fire vehicle. Instead, according to the Executive Assistant Police Chief, the marking was the Emergency Services Division attempt to comply, minimally, with Arizona requirements for marking while continuing to operate a vehicle that was not easily identified as belonging to the City. This was justified, according to her, by the nature of the work (i.e., Emergency Services needs to be able to conduct undercover surveillance of Rural/Metro response to emergencies).

There is no indication that either employee is required to restrict personal activities and remain within a limited geographic area as a means of ensuring a timely response 7 days a week, 52 weeks a year. This issue is significant in that it provides insight into whether an employee is truly on-call. If an employee can decline to respond during off duty hours because they are not in the area or have engaged in an activity that physically impairs their ability to respond safely and effectively, then they are not "on-call." As such, the employee has the benefit of city-provided transportation to and from work without any obligation to respond. These are factors that need to be considered in evaluating taxable benefits of take home vehicles.

Neither vehicle provided to the Emergency Services Officer or the Coordinator meets the definition of a qualified non-personal use vehicle and therefore, compensation related to the daily commute should be reported. Further, each employee should be required to keep daily logs of personal/business use and submit timely reports to Payroll for the calculation of compensation.

Executive Assistant Police Chief and Deputy Chief

Prior to the end of 2001, the Payroll Department was made aware of the fact that the Executive Assistant Police Chief and Deputy Chief were assigned take home vehicles. According to the Payroll Department, a determination was made that no use for recreational purposes was allowed; therefore, there was no need to report compensation. Payroll's manager said that the determination was made that these vehicles met the requirement for a "non-personal use vehicle."

We believe that the vehicles do not qualify. Both are unmarked and there is no indication that the City (with the exception of the Police Chief) authorized the personal use. Moreover, there is no indication that personal use was incidental to law enforcement functions such as being able to report directly to a stakeout.

In order for a vehicle to qualify for exclusion, an unmarked vehicle must be operated by a law enforcement officer who regularly carries a firearm.

There are only limited circumstances under which an unmarked police car qualifies as a non-personal use vehicle. First, the driver must be a "law enforcement officer." A law enforcement officer must satisfy all of the following requirements. He or she must be a full-time employee of a governmental unit that is responsible for preventing or investigating crimes involving injury to persons or property (including catching or detaining persons for these crimes). The officer must be authorized by law to carry firearms, execute search warrants, and to make arrests. The officer must regularly carry firearms, except when it is not possible to do so because of the requirements of undercover work.

SOURCE: Internal Revenue Service Chief Council Advisory 200206053.

City Needs to Distinguish Between Business Need and Personal Convenience

There may be situations that warrant requiring an employee to drive a city-provided vehicle home after-hours or on the weekend simply to facilitate response to an after-hours call. Basically, the use is driven by need and not the personal convenience of the employee. If this is the situation, then the use is considered a bona fide non-compensatory business reason. It is important to note that it is not sufficient just to state that the City requires the employee to commute in the vehicle. There must be a true business need such as a need for specialized equipment necessary for response if the employee is on-call or an increase in productivity that results from the ability to report directly to the field.

The IRS still believes that the employee assigned the vehicle receives a benefit associated with the use for commuting but, to avoid penalizing an employee who has no choice in the matter, has developed a methodology that results in a minimal amount of record keeping and compensation. This method, known as the commute rule, requires the following conditions:

1. Vehicle is provided for use in City business and the City requires the employee to commute in the vehicle.
2. Written policy that prohibits use of vehicle for personal use other than commuting or minimal personal use (e.g., stopping at the store on the way home).
3. The employee does not use the vehicle for personal use.
4. The employee is not a "control employee."

By ensuring that the conditions are met, compensation is minimal, factored by multiplying each one-way commute by \$1.50. For example, an employee who commuted five days a week in a city-provided vehicle would be charged \$15 per week.

The key to this determination though, is whether or not the employee is required to commute in the vehicle. We found, however, that the City has not developed criteria that would assist managers or supervisors when faced with this issue. Moreover, there is no guidance that would reduce the potential that the phrase "required" would be interpreted liberally to provide a vehicle for commuting even though there was no true business need.

The ability to use this methodology can be beneficial in situations where a vehicle would not meet the definition of a "qualified non-personal use vehicle" but the business need is such that the City wants the employee to take the vehicle home. For example, the vehicle assigned by Risk Management would not qualify as a non-personal use vehicle. As such, the City is required to track use and report compensation associated with commute miles. Because the vehicle is rotated between employees, a process that requires each individual to report mileage could become cumbersome. Using the commute rule would simplify the process and ensure that the City complied with requirements.

City Needs to Evaluate Use of City-Provided Vehicles Within the Police Department and Verify That Exclusion From Compensation is Appropriate

Currently, there are approximately 160 vehicles within the Police Department that are taken home on a routine basis. During this audit, it became apparent that the Police Department considers vehicles assigned to sworn officers (and even civilian employees) to automatically meet the criteria necessary for a "qualified non-personal use vehicle." As such, no records of use have been maintained and Payroll was not consulted to verify the determination.

We found, however, that a determination requires more consideration than just the service delivery. Guidance outlined in 26CFR, 1.274 5-T, provides that only the following Police and Fire vehicles would qualify:

- Clearly marked police or fire vehicle required to be used in commuting because the police officer/firefighter is on-call at all times. Personal use outside the police officer's arrest powers or the firefighters obligation to respond to an emergency must be prohibited. Clearly marked means that, through painted insignia or word, it is readily apparent that the vehicle is a police or fire vehicle.
- Unmarked vehicles operated by a law enforcement officer that is authorized by law to carry firearms, execute search warrants, and to make arrests and who regularly carries firearms except when undercover work makes it difficult. Any personal use must be authorized by the City and incident to the law enforcement function such as being able to respond from home to a stakeout or surveillance or to an emergency situation.

As part of our work, we evaluated the justification submitted by the Police Department, the status of the individual assigned to operate the vehicle, and whether or not the vehicle was marked. We found multiple instances, in addition to those already discussed, in which the situation would not appear to meet the criteria. The insert below shows examples of instances in which additional compensation should have been considered.

Compensation Considerations		
Community Relations	Unmarked	Position serves as backup for PIO. No indication of an obligation to regularly carry a firearm and perform the functions of law enforcement.
Community Relations	Marked	Operator is a Police Aide. IRC requires a marked police vehicle to be operated by a police officer in order to qualify. Also, no indication that the City requires the employee to commute in the vehicle in order to be able to respond at all times.
DARE Officers	Marked	No indication that the City requires the employee to commute in the vehicle in order to be able to respond at all times.
School Resource Officers	Marked	No indication that the City requires the employee to commute in the vehicle in order to be able to respond at all times.

When making a determination regarding these vehicles, we considered whether or not there would be an expectation that the operator perform law enforcement functions such as pursuing offenders, conducting investigations, or performing public assistance activities. If it was clear from the job description that the function was purely administrative the use was not considered to meet the requirement. We also considered whether or not the nature of the response would require the employee to respond in a certain vehicle. For example, there is nothing to support a conclusion that the nature of service would require the

Community Relations personnel to respond in a particular vehicle. If a situation warranted an after-hours response, a personal vehicle could provide transportation.

In point of fact, the City does not provide the Director of Communications and Public Affairs (CAPA) or any other departmental PIOs with take home vehicles even though they may be required to work varied schedules or transport materials to community events on the weekend or after hours. Even if it were reasonable to provide a vehicle to the Police PIO, the decision to provide an unmarked vehicle would still need to be evaluated.

CHAPTER 3

CITY NEEDS TO RE-EVALUATE PATROL OFFICER TAKE HOME VEHICLE PROGRAM

As discussed in the Background section, the Council approved, in 1996, a program that was designed to provide 37 vehicles to Patrol Officers that lived in Scottsdale. Under the POTHVP, the officers would be allowed to drive the vehicles home. There were several projected outcomes including:

- Enhanced feeling of safety among citizens through greater police visibility due to the increased presence of vehicles in neighborhoods and on the street.
- Increased officer morale by providing an "assigned" vehicle.
- Enhanced service delivery by response while in route to work or during off duty.
- Increased useful life of a vehicle through better maintenance as an "assigned" vehicle.

Instead of the thirty-seven initially envisioned, there are fifteen vehicles assigned to the program. The City's pay-as-you go capital improvement program paid for eleven of the vehicles and four were funded with grant monies. Vehicles are disbursed throughout the City with twelve south of Cactus and three north of Cactus. Maps in Appendix B show the geographic locations.

Employees participating in the program are allowed to use the vehicle for personal purposes (i.e., transport family members and take the vehicle outside of City limits up to a mile). Monthly reports are submitted outlining non-duty miles and the assistance provided during off-duty hours. Officers are compensated if the assistance requires more than a minimal amount of time.

As part of our audit, we looked at the POTHVP as outlined when the Council approved additional funding and compared the program actually implemented. We also attempted to gauge performance against program objectives and evaluate whether or not the program was achieving the desired outcome. Finally, we looked at the expenditure of funds to verify that capital improvement funds were used as outlined.

We found that the Police Department has not established program objectives (other than those contained in the initial proposal) for the program. As a result, there is no information that can be used to gauge the success of the program. As currently structured, it appears to be more a means of awarding performance instead of addressing a need to increase visibility in high crime areas, enhance

community policing, or develop strong relationships between the officer and the neighborhood. For example, there is no requirement for the officer to:

- Reside in an area identified as a "high crime" area or one in which the City was attempting to increase the feeling of safety. In point of fact, the City has abandoned the "Housing Program," one of the sister programs brought forward at the same time as a way of increasing officer presence in targeted neighborhoods.
- Be active in community activities. Moreover, we found no indication that there is an expectation for the Police Department to establish programs that the officers can participate in. Finally, we found no performance measures that can be used to evaluate the impact of take home vehicles on the community policing effort.
- Submit management reports outlining neighborhood outreach activities or reside in the same District. We found instances in which officers living in the southern portion of the Community were assigned to District 3, to patrol the northern most area.

We also found that there are limited parameters to guide how the vehicle should be used and no effective auditing of the program. While the Police Department General Orders (up until the time of our audit) required an annual audit, one has not been undertaken.

The program manager will conduct a yearly audit of the POTHVP and its participants to determine participant's continued suitability for the program.

We obtained reports that are required to be filled out monthly by each officer participating in the program. While certain data is captured, the information is not detailed enough to provide insight into program delivery. Officers must log numbers of events while off duty but there is no indication of the type of assistance provided. Moreover, there is no requirement to submit monthly reports on standardized forms. Often, e-mail is used to submit lump sum totals.

We found that many reports listed personal mileage greater than what would be expected given the parameter of the program. There was, though, no note or other explanation outlining the situation creating the need for the excess mileage.

When we questioned the excess mileage, we were told that officers use the vehicles to attend training and other activities but report the mileage as personal because their personal vehicle would have been used if the city-provided vehicle had not been available. While it may have been appropriate for the City to pay the transportation to the event, there are other approaches that are more efficient and economical than using a fully marked Patrol vehicle.

Program Objectives and Performance Measures Would Provide a Means of Evaluating the Benefit of Providing an Assigned Vehicle

The Police Department sets out objectives for the program in the Departmental General Orders. According to this document, objectives are threefold: 1) increase the visibility of officers within the City, 2) deter crime, and 3) benefit officers through the personal use of the vehicle. We found no mention of a goal such as increasing productivity (i.e., start of duty upon leaving residence instead of reporting for duty), enhancing service delivery (i.e., providing assistance while off duty), improving the useful life of vehicles, or reducing the cost of operating vehicles.

Moreover, while the program was sold as a means of increasing presence in high crime neighborhoods, there is nothing in the eligibility section that addresses giving priority to officers who live in targeted areas. Instead, according to the General Orders, selection priority will be given to officers who participate, in good standing, in the Field Training Officer (FTO) program. There is no tie, though, between the FTO program and areas that are experiencing an increase in criminal activity.

Finally, even though the program was intended to increase the community policing efforts, there is no requirement for the officer to live and work in the same district. As such, there is limited opportunity for the officer to develop relationships while patrolling the community that can be carried forward to neighborhood activities while not working. While this can be compensated, to some extent, through development of programs such as community outreach, participation in Block Watch, or other similar programs, the General Orders do not require the officer to become active in the community outreach programs.

Because there is no tie between area of residence and assignment, the length of commute varies. The insert on the following page shows the daily commute for each participating officer.

Roundtrip Commute for Participants in the Patrol Officer Take Home Vehicle Program		
Vehicle #	Vehicle Description	Roundtrip
1197	1999 Chevrolet Tahoe 4x2	29.8
1641	1998 Ford Crown Victoria	9.3
1642	1998 Ford Crown Victoria	15.6
1643	1998 Ford Crown Victoria	.9
1669	1998 Ford Crown Victoria	5.9
1670	1998 Ford Crown Victoria	3.6
1671	1998 Ford Crown Victoria	3.8
1709	1999 Ford Crown Victoria	3.5
1710	1999 Ford Crown Victoria	2.6
1711	1999 Ford Crown Victoria	19.4
1712	1999 Ford Crown Victoria	8.3
1733	1999 Ford Crown Victoria	5.4
1773	2000 Ford Crown Victoria	11.0
1774	2000 Ford Crown Victoria	13.3
1775	2000 Ford Crown Victoria	<u>27.7</u>
AVERAGE		10.7

SOURCE: Auditor analysis and Mapquest.

We also looked at the average miles placed on a vehicle and the maintenance costs in an effort to determine whether or not the City achieved any benefit through reduced maintenance or an extended vehicle life. According to information kept by the Fleet Management System, the average annual mileage associated with sedans in the program is slightly over 10,000 miles.²⁶ Based on the 60,000 miles set as the threshold for retirement, a vehicle assigned to the program would last approximately 6 years with proper rotation. Within the POTHVP, average use ranged from slightly over 4,500 miles per year to just over 23,000 miles per year.

We identified fourteen cars assigned to Patrol but not used for take home. The selection was not random due to the desire to include vehicles with an average length of service similar to those in the POTHVP. We found that, for the vehicles selected, the average use was approximately 15,000 miles, or about one third more than a take home vehicle. The annual use ranged from slightly over 8,000 miles to an extreme of 33,451 miles. Taking the outlying vehicle out of the calculation drops the average use to approximately 12,500 miles, only 2,500 more than what is experienced in the POTHVP. Using the same threshold,

²⁶ One vehicle was excluded from the average calculation due to the extremely low mileage reported.

the City could expect these vehicles to remain in service for 5 years before reaching 60,000 miles if an aggressive rotation program was undertaken.

We also compared the cost per mile in maintenance and fuel and found less than 10 cents difference between the cost of operations related to vehicles in the program and the cost associated with those outside the program. According to the Fleet Management System, the average per mile cost (not including contract services) is 37 cents per mile in the POTHVP and 45 cents per mile for vehicles not assigned as take home.

Based on this historical information, it does not appear that the City receives a significant benefit either in extended useful life or reduced cost of maintenance from the assignment of a take home vehicle. This conclusion might be different, though, if the work assignment and residence requirement was modified to achieve a reduction in commuting miles.

Better Management Reports Would Provide Additional Insight

The Police Department General Orders require each officer in the program to submit a monthly vehicle log to the program manager. These logs, however, provide little information that is useful in gauging the type of after-duty activities and personal use of the vehicle.

The forms used to submit the information do not contain instructions as to what to consider when reporting and there does not appear to be any consistency in how reports are filled out. We could not tell, for example, if officers were including commute miles as "non-duty" miles. Moreover, there was no note or other data that would provide an explanation for days in which non-duty miles were extreme. Often, reports consisted of e-mail with the information in lump sum fashion so the daily use could not be broken out.

Three categories of non-duty information that are to be tracked are outlined on the report. These include: non-duty incidents, non-duty motorist assists, and citizen assists. Category definitions are not documented and there is no information provided in the monthly vehicle log that could be used to determine the type of assistance provided. The Deputy Chief who acts as the program manager gave us his definitions of the categories. He said that non-duty incidents consist of actions related to traffic violations or road hazards. He defined non-duty motorist assists as actions related to vehicle obstacles and removal. He said that citizen assists relate to actions taken when flagged down by a citizen. In limited instances, officers reported the number of hours they spent on non-duty assistance.

Vehicle Use Results in Additional Compensation

As part of our audit, we assessed whether the use of vehicles in the POTHVP results in taxable compensation to the assigned drivers. As previously mentioned, personal use of the vehicles is permitted as part of the program. Because vehicles in this program are fully marked, the initial impression may be that they fall in the category of being "qualified non-personal use vehicles." All use of vehicles in this category is considered business, so none of the use is reportable as additional income. However, as outlined in the Background and discussed earlier in this section, the IRC limits what can be considered a "qualified non-personal use vehicle." When taking a closer look at the IRC limits and applying them to the vehicles in this program, we believe that these vehicles do not fall in the "qualified non-personal use vehicle" category and, as a result, the City should report additional compensation from the personal use of these vehicles to the assigned drivers.

One of the criteria for meeting the "qualified non-personal use vehicle" status is that the vehicle, by reasons of its nature, is not likely to be used more than minimally for personal use. Generally, a fully marked patrol car would seem to fall in this category because it would be difficult to keep personal use of such a vehicle inconspicuous. However, the POTHVP specifically permits the personal use of the vehicles, including the transportation of family members. In addition, personal use is permitted to the extent that the vehicles could be used in the participant's outside employment, as long as they remain within the Scottsdale city limits. This eliminates any deterrence that the nature of the vehicle would provide, by its markings, in limiting its personal use.

An additional criteria for "qualified non-personal use vehicle" status is that if it is a marked police or fire vehicle, it must be clearly marked and operated by a police officer or firefighter who is required by the City to be on-call at all times. Although the vehicles in this program are clearly marked, there is no indication that the participants are required to restrict personal activities and remain within a limited geographic area as a means of ensuring a timely response at all times. If an employee can decline to respond during off duty hours because they are not in the area or have engaged in an activity that physically impairs their ability to respond safely and effectively, we do not believe that they are "on-call" as required in the IRC. We believe that having the discretion to decline response gives the employee a degree of control over the use of the vehicle and that it eliminates any status it would have as a "qualified non-personal use vehicle." In effect, the employee has the benefit of city-provided transportation to and from work without any true obligation to respond.

In addition, as previously mentioned, vehicles in this program appear to be assigned more as a means to award performance. The related Police General

Orders indicate that, among other things, officers are selected to participate in the POTHVP in recognition of their immediate contribution and service to the department. A Quality Performer rating on the two most recent performance evaluations is also cited as a selection requirement. As well, priority is given to those who participate and are in good standing in other specified programs. The General Orders do not reference participation in community activities or the crime rate in the participant's neighborhood as being factors that are considered in the selection process. All this led us to conclude that, as currently structured, assignment of vehicles in this program has more to do with rewarding performance.

Based on our analysis, we believe that the City should require that the POTHVP participants maintain a record of vehicle use and submit timely statements to Financial Services regarding personal use and business use. Using this information, Financial Services should then report any additional compensation each employee has received from their use of the vehicles in this program.

OBJECTIVE, SCOPE, AND METHODOLOGY

This report is a component of an audit of the controls over the acquisition and use of light duty passenger vehicles and trucks. The scope of this report is limited to addressing issues related to the assignment of City vehicles for take home by employees. Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing as required by Article III, Scottsdale Revised Code, §2-117 *et seq*, with the exception of the peer review requirement.

During the survey phase of this audit, we identified City policy and procedure documents on the assignment of vehicles for take home use. We also made inquiries of Fleet Management and Financial Services staff in an attempt to locate a centralized list that tracks all City vehicles assigned for take home. To determine whether Police Department policies and procedures on the take home of City vehicles are consistent with City policy outlined in the AGs, we reviewed the Police Department's General Orders as they relate to the assignment and use of vehicles for take home and compared them to existing City policy on the same subject matter. We made note of any inconsistencies between the documents.

In order to determine whether City policy permits the assignment of a take home vehicle as compensation, we reviewed the AGs. We found that AG 204 addresses car allowances but it does not address the possibility of providing a take home car in lieu of a car allowance. We interviewed the Police Chief to identify any instances where a take home vehicle was provided as compensation or in lieu of a car allowance. For those situations in which we were told a take home vehicle was provided for such reasons, we asked for documentation that supported the arrangement. No such documentation was provided. We asked the Human Resources Director if there were any documented agreements in the employee personnel files which outlined the provision of the vehicle as part of the employee's compensation package. We were told that there were none. For a vehicle leased by the City and provided to the Administrative Services Bureau Director for take home use, we obtained Accounts Payable invoices to determine the annual cost to lease the vehicle.

To gain an understanding of the vehicle take home policies, procedures, and practices in place at other area municipalities, we interviewed representatives of the Cities of Chandler, Glendale, Mesa, Peoria, Phoenix, and Tempe. We obtained information from these municipalities on the limitations they impose on the take home of their vehicles. For comparative purposes, we obtained City of Phoenix regulations governing the use of city-owned vehicles. We also obtain Police General Orders related to take home vehicles from Chandler and Glendale.

We interviewed the Risk Management Director to determine whether his office reviews the assignment of vehicles for take home and whether his concurrence is required on whether there is a sufficient business need to warrant the assignment. We also inquired as to whether there was a process to ensure that Risk Management is appropriately notified of all vehicles placed in service to ensure that a complete and accurate schedule of vehicles is submitted as part of the City's insurance coverage. Related to this inquiry, we asked whether Risk Management had any record of the twenty-three leased vehicles assigned to the Police Department's Special Investigations Section. We found that they did not.

We interviewed personnel within Risk Management, Neighborhood Services, and the Police Department to obtain information on the vehicles in their areas assigned for take home. We asked for the reasons why vehicles were taken home and found that, in general, the stated reasons were either that the employee was on-call 24 hours a day, 7 days a week or that money and/or time was saved by allowing the driver to report directly from home to various work locations. We asked for related supporting documentation, analysis, or data and were told that none was kept to justify take home of the vehicles, or to regularly assess the ongoing need for the vehicles to be taken home. In addition, when we asked about the justification for providing four-wheel drive vehicles to Emergency Services staff, we were told that historical information was not maintained to document the instances requiring this type of vehicle. We also found that there was no procedure setting out when it would be appropriate for staff to take a vehicle into a situation that required the four-wheel drive equipment.

To become familiar with the federal tax implications of providing a City vehicle to an employee for take home, we accessed the IRS Internet site and searched for related information. We located and reviewed the 2002 IRS Publication 15-B, "Employer's Tax Guide to Fringe Benefits," and focused on the sections that dealt with employer provided vehicles. We also reviewed IRS Chief Council Advisory 200206053 and 26CFR, 1.274 5t, to obtain additional insight and clarification of the information contained in IRS Publication 15-B. When reviewing this information we also identified IRS requirements for maintaining documentation related to take home vehicles. To determine whether there was written guidance on the potential tax consequences of providing a take home vehicle, the City's position on calculating additional compensation when warranted, and who is charged with making determinations of the tax implications of take home vehicle assignments, we reviewed the AGs addressing use of a city-provided vehicle. These AGs did not address those issues.

To obtain background on the responsibility and process of determining the tax implications to employees assigned take home vehicles we conducted interviews

with the manager responsible for the City's Payroll Division. We asked how Payroll becomes aware of take home vehicles and we requested copies of guidance established by Payroll that is used to make related tax determinations. We obtained information from Payroll's manager regarding the practices used to determine the taxable implications of take home vehicle assignments.

We interviewed the Emergency Services Officer to determine whether he was being taxed on his take home use of a City vehicle. We reviewed an opinion from a City Attorney staff member on the topic of whether the use of City vehicles by the Emergency Services Officer and the Emergency Services Coordinator met requirements for tax exemption as "qualified non-personal use vehicles." To verify statements made in the opinion letter, we obtained the job description for both of these individuals and compared them to the information in the letter. We also contacted the State Fire Marshal to determine whether either of the employees is listed as a certified firefighter. We also made inquiries to the Executive Assistant Police Chief, to whom the Emergency Services Division reports, to verify the information contained in the opinion letter. In addition, we viewed the Emergency Services vehicles in question to determine the nature of the markings on them. We made inquiries, to the manager responsible for Payroll, as to the impact of the attorney's opinion letter on her determination of whether taxable benefits accrued to those employees from their use of the vehicles.

In order to compare the average cost of a gallon of gasoline in Arizona to the average paid by the City, we reviewed the August 2001, Arizona Automobile Association Daily Fuel Gauge Report and obtained the average cost of a gallon of gasoline for the period. Fleet Management provided us with the average cost of a gallon of gasoline paid by the City.

In order to become familiar with the anticipated benefits, objectives, and requirements, we reviewed the 1994 feasibility study prepared by the Police Department for the POTHVP as well as the related 1996 Capital Improvement Program proposal for the purchase of the vehicles. To determine whether program objectives had been established by the Police Department to gauge the success of the POTHVP, we asked Police officials for this information. We reviewed Police General Orders to gain an understanding of the parameters imposed on the use of vehicles in the program. To become familiar with available data on the program, we obtained and reviewed reports that are required to be filled out monthly by each officer participating in the POTHVP. When questions arose on the information contained in these monthly reports, we followed up with Police officials to obtain explanations. To determine whether the POTHVP, as implemented, addresses the goals outlined in the initial proposal, we compared the program objectives in the related General Orders to information contained in the 1994 feasibility study.

We also reviewed professional literature to obtain guidance on the important elements in controlling actions and achieving desired outcomes.

Survey Tests

The following tests were conducted during the survey phase of our audit.

Test 1

Objective: To identify City policy and procedure documents on the assignment of vehicles for take home use.

Method: We reviewed City AGs to determine if there was any information addressing the circumstances and authorizations necessary for the take home of a City vehicle.

Criteria: Comprehensive citywide policies and procedures should be available to ensure that City vehicles are assigned for take home only when they meet established requirements. Comprehensive policies and procedures should also be available to ensure consistency within the City in the assignment of take home vehicles.

Results: City AGs 125, 204, and 265 address the use of City vehicles. We found no AG, Council, or City Manager approved policy that specifically and comprehensively outlined the criteria and requirements for providing a City vehicle for take home assignment. AG 125 indicates that each General Manager has the authority to approve assignment of a City vehicle for take home if it is needed for standby or emergency response. This indicates that decisions on the use of City vehicles are made in a decentralized fashion. We found no comprehensive citywide procedures that addressed the assignment of City vehicles for take home. Existing guidance does not set any boundaries for how far a vehicle can be taken home in terms of mileage or response time. There is no requirement that an individual be on-call when they take a City vehicle home. Moreover, we found no definition in the guidance related to key terms used.

Test 2

Objective: To identify all City light duty and passenger vehicles that are assigned for take home.

Method: We obtained a listing of all light duty and passenger vehicles within the City from Fleet Management. We sorted the list by City department. We sent department representatives a list of vehicles assigned to their area and asked that they verify that the list was accurate. We also asked that they indicate type of vehicle usage that best described each vehicle's use based on the following definitions:

Regularly Assigned Driver - The vehicle is assigned to a specific individual for that individual's use during regular business hours.

Multiple Drivers - Use of the vehicle is shared among several individuals for their use during regular business hours.

On-Call Take Home - The vehicle is shared among a group of individuals who alternate taking the vehicle home at night for the purpose of being on call during non-business hours.

Take Home - The vehicle is assigned to a specific individual who takes the vehicle home at night on a consistent and frequent basis.

For vehicles that were indicated to be assigned for take home, we followed-up and asked department representatives for the reasons the vehicles were assigned for take home. When needed, we performed follow-up with department representatives to obtain clarifying information. We also obtained updated information as the audit progressed.

Criteria: City vehicles assigned for take home should be identified for consideration in the audit.

Results: The most current report available to us during our fieldwork indicated that as of June 27, 2002, there were 168 City vehicles assigned for take home. All but two of these fall under the oversight of the Police Department and nine of those are motorcycles.

Test 3

Objective: To determine whether departments that assign City vehicles for take home maintain documentation to support the decision.

Method: We asked representatives of the Police Department, Risk Management, Field Services, and Neighborhood Services whether they had any documentation which justified and supported their decisions to assign City vehicles for take home.

Criteria: Assignment of City vehicles for take home should be supported by documentation that sets out the reason for the assignment and includes data that supports the conclusion that take home of the vehicle would serve a City business.

Results: Documentation is not maintained to support take home assignment decisions.

Test 4

Objective: To identify the information that should be documented in providing a justification for the assignment of a vehicle for take home.

Method: Lacking any City requirement that the assignment of take home vehicles be justified in writing, we identified the information we would expect to be available and documented when such decisions are made.

Criteria: The information that should be documented in a take home justification should be sufficient to permit the City to demonstrate that it has been a good steward in the use of public funds.

Results: We determined that the documented justification for assignment of take home vehicles should include the following:

The unique characteristic of the service that requires use of a specific vehicle to respond.

The employee's obligation to respond during off duty hours on days the vehicle is taken home.

The amount of standby pay the City will be required to pay to guarantee that the employee will be ready to respond.

Historical trends to support the need for after-hours call out.

Cost-savings achieved by allowing the employee to report directly to a remote location and the length of time the assignment will continue.

The availability of other vehicles to respond to a call-out. If so, documentation of trend analysis to support the need for redundancy.

Verification the employee will be able to respond in a timely manner given the distance driven home

Alternatives considered.

Fieldwork Tests

The following tests were conducted during the fieldwork phase of our audit.

Test 1

Objective: To determine the policies of area municipalities in providing transportation to their Police Chief, Assistant Chiefs, and Commanders.

Method: We interviewed representatives of Chandler, Glendale, Mesa, Peoria, Phoenix, and Tempe and asked them what their policy was on providing transportation for their Police Chief, Assistant Chiefs, and Commanders.

Criteria: No specific criteria applies to this work, the information was obtained for comparison purposes.

Results: In Chandler, the Police Chief and Assistants receive a \$90 car allowance every other week (26 weeks at \$90 = \$195 per month). In Glendale, the Police Chief has option of a vehicle or a \$300 per month car allowance. The current Police Chief is assigned a Crown Victoria. The Assistant Chief and Commanders receive a car allowance of \$300 per month. In Mesa, the Police Chief and Assistants receive a car allowance of \$300 per month. In Peoria, the Police Chief has the option of a \$300 per month car allowance or an Intrepid. Currently, the Peoria Police Chief and other Chiefs receive a semi-marked Intrepid. In Phoenix, the Police Chief and Assistant Chiefs receive a \$370 per month car allowance. Phoenix Commanders receive a \$230 per month car allowance. In Tempe, the Police Chief and Assistants receive a \$500 per month car allowance. The Chief does have the option of a vehicle.

Test 2

Objective: To determine whether information is tracked in order to verify that the assignment of take home vehicles is justified by the off duty use of the vehicle for City business purposes.

Method: We made inquiries to members of the Police Department, Risk Management, Field Services, and Neighborhood Services. We asked whether off duty responses were tracked for individuals assigned take home vehicles in their areas.

Criteria: Assignment of City vehicles for take home should be supported by the business use of the vehicle during the off duty periods.

Results: We found that this information is not tracked for the purpose of regularly evaluating whether the frequency of off duty responses justifies the take home assignment.

Test 3

Objective: Identify examples of fuel cost savings that could be achieved if the specifications of vehicles assigned for take home were limited to those truly needed for the assignment.

Method: We reviewed the list of City vehicles assigned for take home along with the related justifications for the assignments. From this list we pulled a judgment sample of two 4X4 vehicles. One, a 2000 Chevrolet Tahoe assigned to the Police Chief, and the other, a 2000 Dodge Durango assigned to the Executive Assistant Police Chief. These vehicles were selected because they generally receive lower fuel economy ratings (mpg) than non-4x4s. In addition, the justification supplied to us for the take home of these vehicles did not provide any indication that these type vehicles were necessary to accomplish any particular business purpose.

For both of these vehicles, we obtained the average fuel economy rating according to the U. S. Environmental Protection Agency Green Vehicle Guide. We also obtained the average fuel economy rating for a 2000 Dodge Intrepid because it is a vehicle that is in use within the Police Department and we believed that this type of vehicle would serve the take home need for comparison purposes. We proceeded under the assumption that the Intrepid would not be an upgraded "police package" Intrepid since there was no indication that the job duties associated with these individuals would warrant the need for a vehicle that would normally be considered a pursuit vehicle.

For the Police Chief's vehicle, we obtained mileage reports he submitted on the business use of the vehicle between November 2000 and October 2001. We then divided the total miles for this period by the average fuel economy rating for this vehicle to determine the approximate number of gallons of gas consumed during this period. We also divided the total miles for this period by the average fuel economy rating for a 2000 Dodge Intrepid to estimate what the fuel consumption would have been had this been the type of vehicle assigned.

For the Executive Assistant Police Chief, we obtained the major crossroads of her home residence and the address of the duty station she is assigned to. Using Mapquest, we determined the daily commute for which the city-owned 2000 Dodge Durango 4x4 is used. Working on the assumption of a 5-day workweek and a 49-week work year, we calculated the personal commuting miles placed on this vehicle annually. We then divided this total by the average fuel economy rating for this vehicle to determine the approximate number of gallons of gas consumed for the commute. We also divided the total personal commuting miles by the average fuel economy rating for a 2000 Dodge Intrepid to estimate what the commute fuel consumption would have been had this been the type of vehicle assigned.

Criteria: In order to maximize efficiency within the City, the specifications of vehicles assigned for take home should be limited to the minimum required to meet the needs of the assignment.

Results: According to the U. S. Environmental Protection Agency Green Vehicle Guide, a 2000 4x4 Tahoe obtains an average fuel economy of 13.14 mpg, a 2000 4x4 Dodge Durango obtains an average 12.8 mpg, and a 2000 Dodge Intrepid obtains an average of 19.25 mpg.

Mileage reports submitted by the Police Chief indicate he drove 14,703 business miles between November 2000 and October 2001. At 13.14 mpg for a 2000 Tahoe 4X4, this volume of mileage would consume approximately 1,119 gallons. If the same mileage had been driven with an Intrepid, the estimated fuel consumption would have been 764 gallons.

The Executive Assistant Police Chief commutes approximately 50 miles a day in a city-provided 2000 Durango 4X4. Assuming a 5-

day workweek and a 49-week work year, approximately 12,250 personal use miles are placed on this vehicle annually. With an average fuel economy of 12.8 mpg, the City incurs the cost associated with approximately 957 gallons of gasoline. If the same commute was accomplished using an Intrepid, the consumption could be reduced to 636 gallons.

Test 4

Objective: To demonstrate an example of the potential vehicle cost savings the City could realize if specifications of vehicles assigned for take home were limited to those truly needed for the assignment.

Method: We reviewed the list of City vehicles assigned for take home along with the related justifications for the assignments. From this list we pulled a judgment sample of four 4X4 SUVs. One, a 2000 Chevrolet Tahoe assigned to the Police Chief, one a 2000 Dodge Durango assigned to the Executive Assistant Police Chief, and two 2000 Ford Expeditions assigned to the Emergency Services Officer and the Emergency Services Coordinator. These vehicles were selected because the justification supplied to us for the take home of these vehicles did not provide any indication that these type vehicles were necessary to accomplish any particular business purpose. We then obtained Financial Services' record of the amount it cost the City to purchase and equip each of these vehicles. We then totaled the amounts to arrive at the total City cost to provide these vehicles for service.

We also obtained Financial Services' record of the amount it cost the City to purchase and equip the 2000 Dodge Intrepid provided to the Police Department's Administrative Services Bureau Director because we believed this type of vehicle would serve the take home need for comparison purposes. We compared the cost of the four 4x4 vehicles to the cost of the same number of Intrepids to arrive at the amount the City could have saved if the Intrepids had been assigned instead.

In addition, to determine the additional amount that it costs the City to provide a 4x4 Expedition as opposed to a two wheel drive model, we obtained the cost of two wheel drive models assigned to the Police K-9 Unit and compared this to the cost of the 4x4 Expeditions.

Criteria: In order to maximize efficiency within the City, the specifications of vehicles assigned for take home should be limited to the minimum required to meet the needs of the assignment.

Results: In total, the City spent \$148,808 for the 4x4 SUVs assigned to the Police Chief, Executive Assistant Chief, Emergency Services Officer, and the Emergency Services Coordinator. At a cost of \$21,035 each, if the same number of Intrepids had been purchased to provide transportation for these individuals, the City could have saved more than \$64,000.

In addition, each of the four wheel drive SUVs purchased for the Emergency Services Officer and the Emergency Services Coordinator cost almost \$4,000 more than the average paid, during the same period, for two wheel drive models assigned to the K-9 Unit.

Test 5

Objective: To determine whether the three non-police/emergency services vehicles, originally reported to us as approved for take home, carry specialized equipment and whether the equipment is needed to respond to after hours emergencies.

Method: We spoke with representatives of Field Services, Risk Management, and Code Enforcement, and asked about the nature of the vehicle assigned for take home in their area. We asked whether there was some unique characteristic of the vehicle or its related equipment that would require it to respond to an after hours emergency. We also asked for the reason that the vehicles were assigned for take home and how the vehicles are used.

Criteria: In order to justify the assignment of a vehicle for take home on standby or emergency status, the vehicle should carry specialized equipment that is needed to respond to after hours emergencies.

Results: We were told that the Field Services truck was assigned to respond to road emergencies after hours. It carries specialized equipment that is needed to respond to an emergency. The Risk Management sedan, assigned for take home, is rotated between two employees who respond to Risk-related calls after business hours. There is no unique characteristic of the vehicle or its equipment that require its presence at these calls. The Code Enforcement sedan assigned for take home is used by the Code Enforcement Manager. The

assignment was made to provide transportation to evening meetings and for occasional weekend response. There is no unique characteristic of the vehicle or its equipment that require its presence at these calls.

Test 6

Objective: To gain insight into the distance that City vehicles are taken home.

Method: For the Police Department's Traffic Enforcement Section, SROs, and DARE Officers we calculated the commute for vehicles taken home within those sections (motorcycles not included). We obtained the major crossroads of the home residence of each individual in these sections if they had a take home vehicle assigned to them. We also obtained the address of their assigned duty station or off site reporting station(s), whichever applied. We used Mapquest to calculate the roundtrip commute for each of the individuals. For the SROs and DARE Officers, we deducted the mileage that would normally be incurred from their assigned duty station to the off site facilities they report to. Because DARE Officers report to multiple off site locations, we calculated the average commute for these individuals. For the take home vehicles assigned to the Traffic Enforcement Section, we used reports provided by the Police Department to determine whether or not the vehicles had visible external markings to indicate City ownership.

Criteria: No specific criteria applies to this work, the information was generated to obtain perspective on the distances vehicles are taken home.

Results: There were ten non-motorcycle take home vehicles assigned in the Traffic Enforcement Section. Seven of these vehicles contained no visible external markings to indicate City ownership. The roundtrip commute for these vehicles ranged from a low of 23 miles to a high of 59.2 miles. The average roundtrip commute for these vehicles was 39.2 miles.

There were 13 take home vehicles assigned to SROs. One of these vehicles saved 26 miles on the commute by reporting to the off site location directly from home, as opposed to going from the duty station to the off site location. One vehicle incurred an additional 50.8 miles a day in commuting because it was allowed to be taken home. The average additional miles put on these vehicles because they were permitted to be taken home was 12.7 miles per day.

There were four take home vehicles assigned to DARE Officers. The additional miles put on these vehicles because they were permitted to be taken home ranged from a low of 9.8 miles to a high of 63.4 miles. The average additional miles put on these vehicles because of the take home commute was 33.6 miles per day.

Test 7

Objective: To determine whether the Payroll Division has implemented sufficient procedures to ensure that the calculation of compensation, related to the take home of City vehicles, is accurate.

Method: We obtained information from Payroll's manager regarding take home vehicles that resulted in compensation to employees for calendar years 1998, 1999, 2000, and 2001. We reviewed this information to determine whether accurate information was used to make the calculations, and to determine whether the process was consistent and in compliance with IRS guidance. We followed up on an additional issue that came to our attention during this work and asked Payroll's manager why the City paid both the employee's and the employer's portion of the tax liability for the Administrative Services Bureau Director's compensation related to the City vehicle provided to her for take home.

Criteria: Calculation of compensation resulting from the take home use of an employer provided vehicle should be done using the most accurate information available and should be done in a consistent manner which complies with applicable IRS guidance.

Results: We found that the vehicle purchase price used to calculate the lease value for the Administrative Services Bureau Director in 2001 was lower than the purchase price recorded in the City's inventory. This resulted in reporting a lower lease value than what should have been reported. We also noted that the lease value used to calculate compensation related to a vehicle assigned to the Administrative Services Bureau Director from October 2000 through May 2001, was based on the used car value instead of the new car purchase value which, according to IRS publications, is only appropriate if the vehicle was placed into service used. This does not appear to be the case. In addition, the purchase price used to establish the lease value for the vehicles assigned to the Police Chief and the Administrative Services Director were based on the inventory cost, which includes specialized equipment, instead of

invoice price. IRS guidance indicates that the cost of specialized equipment can be excluded from the calculation if the equipment is necessary for the employer's business needs.

We found that Payroll used a standard cost of fuel to calculate additional compensation related to a take home vehicle. IRS publications indicate that actual fuel cost is generally the method used to calculate the compensation if the fuel was charged to the employer. We also found that the forms used to report 2001 mileage do not require the employee's signature stating that daily logs were maintained. Moreover, the forms reference Payroll guides and IRS publications that no longer exist.

We found that the process used to calculate compensation in 1998 required quarterly statements from individuals with taxable take home vehicles. These statements included a signature line for the employee indicating that they kept daily mileage logs. These forms also referenced additional City and IRS guidance documents. In the following two years, e-mails setting out recreational use were used in the calculations.

According to Payroll's manager, the City paid both the employee's and the employer's portion of the tax liability for the Administrative Services Bureau Director after consultation with Human Resources. The decision was based on a feeling that it was unfair to require the employee to pay taxes on the compensation when the City did not meet IRS requirements to inform her that there would be no related income tax withheld from her wages.

Test 8

Objective: To determine whether the take home vehicles assigned to the Police Chief, Executive Assistant Police Chief, Deputy Chief Emergency Services Officer, and the Emergency Services Coordinator meets the IRC criteria for a "qualified non-personal use vehicle."

Method: We reviewed the characteristics of assigned vehicles. We also reviewed notes contained on the mileage statements submitted by the Police Chief during 1998 and followed up to try to obtain related supporting documentation. In addition, we reviewed job descriptions for each of the individuals. For the Emergency Services Officer and the Emergency Services Coordinator, we contacted the State Fire Marshal to determine whether either of the employees is listed as a certified firefighter. The information

obtained during these reviews was used to compare to the IRC requirements for a "qualified non-personal use vehicle."

Criteria: The IRC limits what can be considered a "qualified non-personal use vehicle." It must be a vehicle that is not likely to be used, more than minimally, for personal use. If it is a marked police or fire vehicle, it must be clearly marked and operated by a police officer or firefighter who is required by the City to be on-call at all times. If the vehicle is unmarked, it must be operated by a law enforcement officer who regularly carries a firearm and conducts usual and customary law enforcement functions. In addition, all personal use must be authorized by the City and incident to the ability to carry out the required law enforcement functions.

AG 204 states that personal use is only appropriate if it is incident to law enforcement functions such as being able to report directly to a crime scene, stakeout, or other emergency. Use for recreation/vacation is specifically prohibited.

Results: Each of the assigned vehicles was a 4x4 SUV. The only markings on vehicles assigned to the Emergency Services Officer and the Emergency Services Coordinator consisted of a "bumper sticker" type of decal placed on the rear panel of the vehicle. There is no other marking on the front or either side of these vehicles that would lead an observer to conclude that the vehicle was a police or fire vehicle. There were no visible external markings to indicate City ownership on any of the other vehicles.

The job descriptions of the Police Chief, Executive Assistant Police Chief, and the Deputy Chief have no requirements to indicate that the City expects them to regularly carry a firearm and actively carry out functions related to actual law enforcement duties such as serving search warrants, pursuing offenders, making arrests, and carrying out investigations. We found no documentation indicating that personal use of the vehicle assigned to these individuals was officially authorized or how such personal use relates to law enforcement duties. We found no contracts, memos of understanding, or employment agreements that set out any conditions associated with the use of these vehicles.

The job descriptions for the Emergency Services Officer and the Emergency Services Coordinator contained no mention of a requirement for the employees to hold firefighter certification. There is no indication that either employee is required to restrict

personal activities and remain within a limited geographic area as a means of ensuring a timely response 7 days a week, 52 weeks a year.

Notes written on mileage statements submitted by the Police Chief during 1998 indicate that the determination that all mileage, except recreation/vacation use, was considered business related was per an agreement with the previous Financial Services General Manager. We found no documentation on this agreement and no documentation that provided insight into what led to the determination that the vehicle qualified as a non-personal use vehicle.

Test 9

Objective: To identify whether certain vehicles assigned for take home within the Police Department meet the requirements to be considered "qualified non-personal use vehicles."

Method: For Police Community Relations, DARE, and SRO personnel assigned take home vehicles, we evaluated the take home justification submitted by the Police Department, the status of the individual assigned to operate the vehicle, and whether or not the vehicle was marked. We also reviewed the job descriptions of the positions and assessed the information to determine whether the assigned vehicles meet the requirements to be considered "qualified non-personal use vehicles."

Criteria: For police and fire vehicles, 26CFR, 1.274 5-T, indicates that only the following would meet "qualified non-personal use vehicle" status:

Clearly marked police or fire vehicles required to be used in commuting because the police officer/firefighter is on-call at all times.

Personal use outside the police officer's arrest powers or the firefighters obligation to respond to an emergency must be prohibited. Clearly marked means that, through painted insignia or word, it is readily apparent that the vehicle is a police or fire vehicle.

Unmarked vehicles operated by a law enforcement officer that is authorized by law to carry firearms, execute search warrants, and to make arrests and who regularly carries

firearms except when undercover work makes it difficult. Any personal use must be authorized by the City and incident to the law enforcement function such as being able to respond from home to a stakeout or surveillance or to an emergency situation.

Results: Two vehicles were assigned for take home for Community Relations, one was marked and one was not. The marked vehicle was assigned to a Police Aide whose job description contained no indication that the City requires the employee to commute in the vehicle in order to be able to respond at all times. The unmarked vehicle was assigned to an officer who serves as a backup for the Public Information Officer. His job description did not indicate an obligation to regularly carry a firearm and perform the functions of law enforcement.

The vehicles assigned to the DARE Officers are marked. The related job descriptions contain no indication that the City requires the employee to commute in the vehicle in order to be able to respond at all times.

The vehicles assigned to the SROs are marked. The related job descriptions contain no indication that the City requires the employee to commute in the vehicle in order to be able to respond at all times.

Test 10

Objective: To determine the length of commute for the Officers participating in the POTHVP.

Method: We obtained the major crossroads of the home residence of each Officer participating in the POTHVP. We also obtained the address of their assigned duty stations. We used Mapquest to calculate the roundtrip commute for each of the individuals.

Criteria: No specific criteria applies to this work, the information was generated to obtain perspective on the distances the POTHVP vehicles are taken home since there is no tie between the Officer's residence and his assignment.

Results: There are 14 sedans and 1 SUV assigned to the POTHVP. The SUV has a roundtrip daily commute of 29.8 miles. The high commute for the sedans is a vehicle that incurs 27.7 miles per day.

The low commute for the sedans was one that incurs .9 miles per day. The average daily roundtrip commute for the 15 vehicles was 10.7 miles.

Test 11

Objective: To determine the difference in average annual miles and average cost per mile for the operation of vehicles in the POTHVP and similar Police Patrol sedans not assigned for take home.

Method: We identified all 14 Crown Victoria sedans in the POTHVP and reviewed the date each vehicle was placed in service. We then reviewed Fleet Management's list of passenger and light duty vehicles within the City and identified 14 Patrol Crown Victorias that were not used for take home and which had similar dates for being placed in service. We asked Fleet Management for reports on the monthly mileage placed on these vehicles and the monthly operating costs for the vehicles since the inception of their service. Using these reports, we identified one POTHVP vehicle (unit number 1773) that was in service for 4 months before any significant miles were placed on it. For this reason, we excluded this vehicle from the comparison of average annual miles between the two vehicle groups. We also excluded one Patrol sedan not used for take home from the comparison. The excluded sedan was one which had a similar in service date as unit 1773. Using the Fleet provided data, we then calculated the average annual miles for each vehicle and then calculated the average annual miles for each group of vehicles. We then compared the two amounts.

We reviewed the operating cost data for each of the vehicles. We noted that the costs consisted of maintenance, labor, parts, fuel expenses, and contract services costs. After speaking with a Fleet representative, we determined that the contract services costs are those incurred when a vehicle is sent to an outside contractor for work, such as bodywork due to an accident. Because we did not believe this was a representative vehicle operating cost, we excluded the contract services costs from our comparison. For each group of 14 vehicles, we totaled the operating costs for the life of the vehicles and divided that amount by the total miles for all vehicles in each group to arrive at the average operating cost per mile. We then compared the per mile cost of the POTHVP vehicles to the per mile cost of the Patrol sedans not used for take home.

Criteria: Documentation submitted with the 1996 POTHVP CIP proposal indicated that one of the program objectives was to improve the life

span of the vehicles due to the personalized care that the vehicles would receive. As a result, the average mileage and operation costs of the POTHVP sedans should be lower than similar vehicles not assigned for take home.

Results: The 13 POTHVP sedans we reviewed averaged 10,090 miles per year. Within the POTHVP the average annual mileage ranged from a low of 4,579 miles per year to a high of 23,066 miles per year. The 13 Patrol sedans not used for take home, reviewed for this work, averaged 14,998 miles per year. For these vehicles, the average annual mileage ranged from a low of 8,084 miles per year to a high of 33,451 miles per year.

For maintenance, labor, parts, and fuel expenses, the average cost per mile for all 14 POTHVP sedans was 37.2 cents. The average cost per mile for the 14 Patrol sedans not used for take home and selected for this review was 45.3 cents.

Test 12

Objective: To determine whether the use of POTHVP vehicles results in taxable compensation to the drivers or whether the vehicles meet the requirements for "qualified non-personal use vehicle" status.

Method: We reviewed the Police General Orders related to the POTHVP to identify how these vehicles are assigned and to identify permitted uses and restrictions on vehicles in the program. We spoke with the program manager to obtain additional information on the nature of the vehicles, assignment and use of these vehicles, and the obligations of the drivers to respond to call-ins when they are off duty. We used the information we obtained on the use, restrictions, and driver obligations related to vehicles in the POTHVP and considered applicable IRS requirements and guidance in making a determination of whether the use of the vehicles results in taxable compensation to the drivers.

Criteria: The IRS considers using a city-provided vehicle to commute to and from work, even when required by the City, to be a fringe benefit that requires the City to report additional compensation for the driver. However, according to the IRC, all use of vehicles that fall in the category of being "qualified non-personal use vehicles" is considered business and is therefore not taxable. For police and fire vehicles, 26CFR, 1.274 5-T, indicates that the following would meet "qualified non-personal use vehicle" status:

Clearly marked police or fire vehicles required to be used in commuting because the police officer/firefighter is on-call at all times. Personal use outside the police officer's arrest powers or the firefighters obligation to respond to an emergency must be prohibited. Clearly marked means that, through painted insignia or word, it is readily apparent that the vehicle is a police or fire vehicle.

Results: We found that the vehicles in the POTHVP are fully marked and easily identified as City of Scottsdale Police vehicles. We also found that the related Police General Orders specifically permits the personal use of the vehicles, including the transportation of family members. In addition, personal use is permitted to the extent that the vehicles could be used in the participant's outside employment, as long as they remain within the Scottsdale city limits. In addition, we found no indication that the participants are required to restrict personal activities and remain within a limited geographic area as a means of ensuring a timely response at all times.

We found that the Police General Orders indicate that officers are selected to participate in the POTHVP in recognition of their immediate contribution and service to the department. A Quality Performer rating on the two most recent performance evaluations is also cited as a selection requirement. Priority is given to those who participate and are in good standing in other specified programs. The General Orders do not reference participation in community activities or the crime rate in the participant's neighborhood as being factors that are considered in the selection process.

APPENDIX A: BID SPECIFICATIONS FOR THE 2000 CHEVROLET TAHOE ASSIGNED TO THE POLICE CHIEF

INVITATION FOR BID # 00IB098 BID SPECIFICATIONS

This specification is intended to describe the type, size, and quality of the equipment which will best meet the demands of the using department. It is not intended to favor any one brand or make. The mention of brand names of equipment or components merely serves to specify the quality or general type required. Any deviations from the stated specifications must have prior approval in accordance with the "Approved Alternate" instructions on pages 3 & 4 of the Invitation for Bid. All bidders must bid new current year equipment.

Vendors shall list the Make and Model of the equipment being used for this bid. The equipment shall conform to all Federal and State regulations.

Make: Chevrolet ✓
Model: Tahoe 4 x 4 ✓
Year: 2000 (Late - New Body Style) ✓
Exterior Color: Light Pewter Metallic ✓
Interior Color: Gray Leather ✓
Engine: 5.3L V-8 ✓
Transmission: 4 Speed Automatic with Overdrive ✓

OK. 2000 Silverado

Required MINIMUM options:
1 SC Tahoe LT Décor ✓

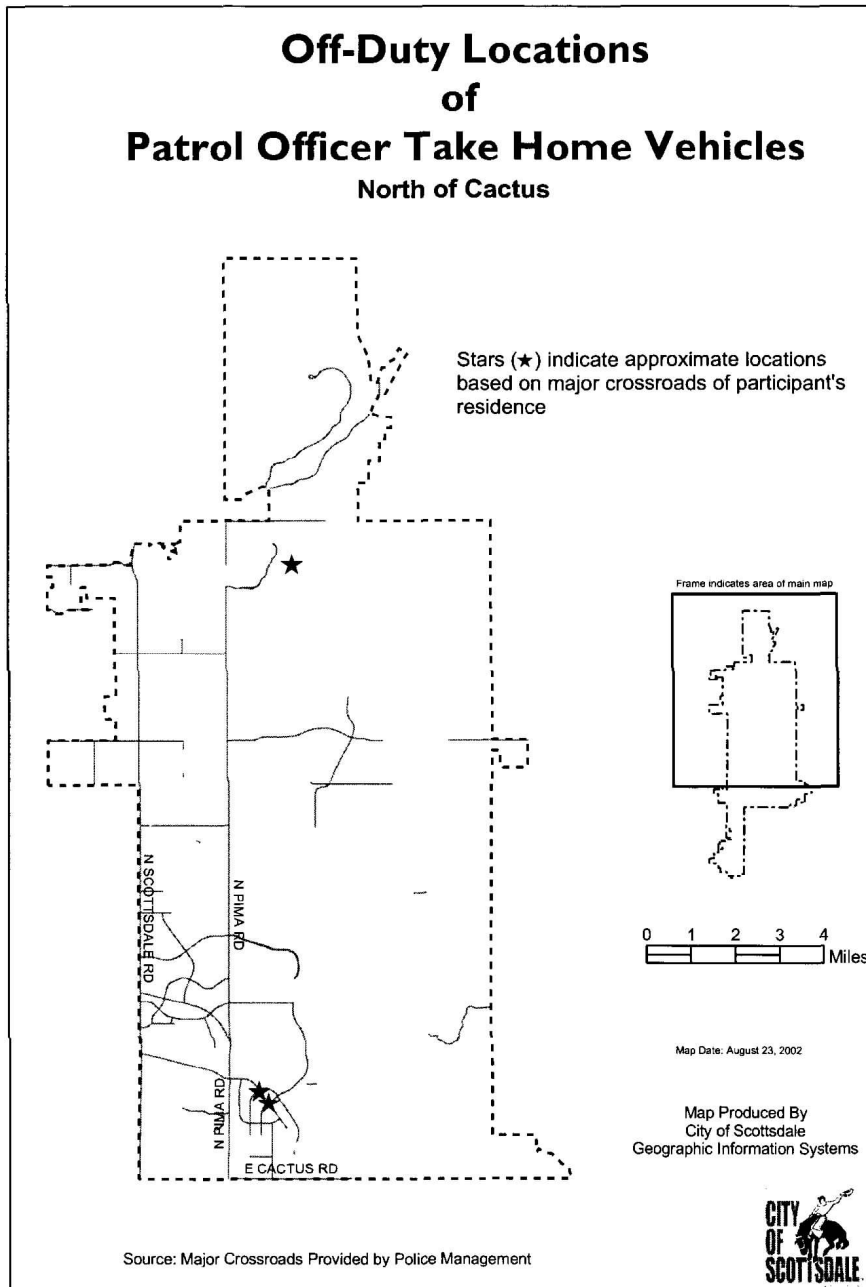
To Include:

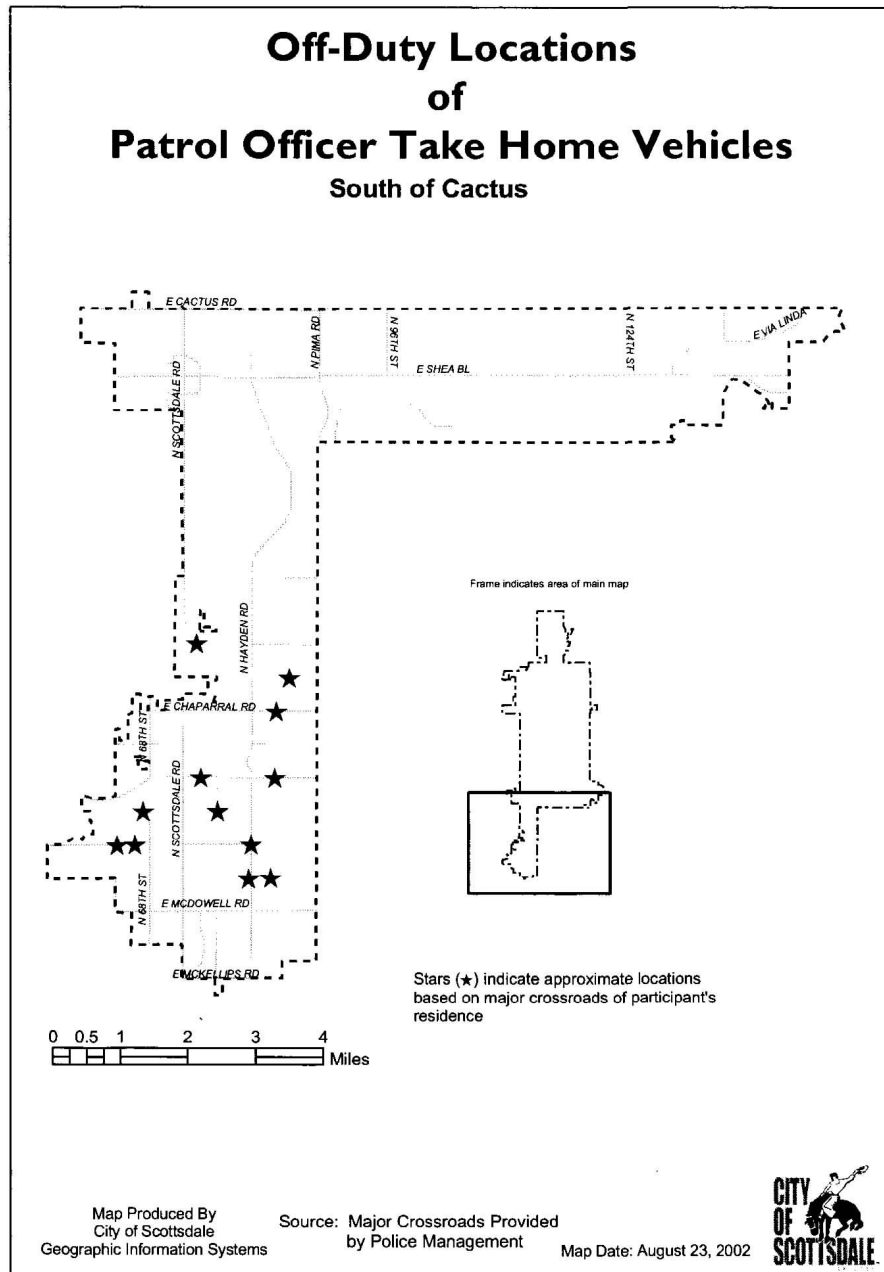
- Second Row Audio Controls ✓ UK6
- AM/FM Stereo, Cassette and CD Player ✓ PK9
- Assist Steps ✓ BVE
- Fog Lights Mounted to the front bumper ✓ T96
- Front Dual Power Bucket Seats ✓ AG2
- Power mirrors, Windows and Door Locks ✓ PK9
- Remote Keyless Entry System ✓ PK9
- Rear Air Conditioning ✓ PK9
- Tilt Steering and Cruise Control ✓ PK9
- Custom Leather Seat Trim ✓ PK9
- Color Keyed Carpeted Floor Mats ✓ PK9
- Polished Cast Aluminum Wheels ✓ PK9
- Luggage Rack ✓ PK9
- OnStar Communications System ISC PK9

R91 ✓ Trailer Towing Package with Under Bumper Receiver Hitch
ZW7 ✓ Premium Ride Rear Suspension
NZZ ✓ Skid Plate Package

R91
ZW7
NZZ

APPENDIX B





**APPENDIX C:
MANAGEMENT RESPONSE**

MEMORANDUM

December 2, 2002

TO: Cheryl Barcala
City Auditor

FROM: Jan Dolan
City Manager

SUBJECT: **CONTROLS OVER ASSIGNING TAKE HOME STATUS TO CITY
VEHICLES**

Attachment
is the Action
Plan
beginning
on page 9.

Attached you will find the City Manager's response to the 'Controls Over Assigning Take Home Status to City Vehicles' audit workpaper. I agree that the City needs a comprehensive policy on this subject and I take the development of an Administrative Regulation (AR) very seriously. On October 14, 2002, I appointed a management committee to develop such an AR. The Financial Services Department will be responsible for establishing the AR based on recommendations of the committee. As City Manager, I will be responsible for the final approval of the AR. The committee expects to complete their recommendations by the first of the calendar year. A new AR should be finalized within 60 days of the receipt of their recommendations.

I also took note of your comments regarding the need for regulations regarding the replacement of vehicles especially upgrades and modifications on replacement vehicles, the re-assignment of vehicles to uses for which they were not originally purchased and controls over the source of funds used for vehicle purchases. I am asking Financial Services to also review these issues and make appropriate recommendations to me.

Cc: Neal Shearer
Al Dreska
Danny Johnson
Craig Clifford
Barbara Burns
Roger Klingler
Ed Gawf
Alan Rodbell